

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

**MEMBER INFORMATION STATEMENT, PROXY STATEMENT AND
OFFERING DOCUMENT**

SPECIAL MEETING OF MEMBERS
to be held on **[DATE]**, 2017

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INTRODUCTION

This member information statement, proxy statement and offering document (this “Member Information Statement”) is presented 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 Eligible Members to be voted at the special meeting of Eligible Members of Saucon Mutual to be held on [DATE], 2017 at [LOCATION] (the “Special Meeting”). Certain terms used in this Member Information Statement are explained in the Glossary that follows this Introduction.

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

The Board of Directors has set August 27, 2014 as the record date for determination of Eligible Members entitled to notice of, and to vote at, the Special Meeting (and any postponements or adjournments thereof). The principles for determining who is an Eligible Member are discussed in this Member Information Statement under the heading “Questions and Answers Relating to the Special Meeting, the Plan and the Conversion Transactions—Who is an Eligible Member of Saucon Mutual?” Only Eligible Members of Saucon Mutual are entitled to notice of, and to vote at, the Special Meeting (and any postponements or adjournments thereof) and only Eligible Members of Saucon Mutual may receive the Member Compensation or, alternately, subscribe for shares of Saucon Holding Company, the holding company being organized to acquire the shares of the stock insurance company into which Saucon Mutual is to be converted (“Saucon Holding”), in the First Stage Offering. This Member Information Statement, its exhibits and the accompanying proxy card are being mailed to Eligible Members.

The Board of Directors is recommending that the Eligible Members approve the Plan. As discussed more fully in the “Conflict of Interest” section of this Member Information Statement, the Board of Directors has a conflict of interest related to the Plan, and the Eligible Members should consider the Board of Directors’ conflict of interest as one of the factors in voting on the Plan.

The Plan contemplates that Eligible Members may either receive Member Compensation, as described more fully in this Member Information Statement under the heading “Description of Member Compensation,” or subscribe for shares of Saucon Holding, subject to certain limitations, as described more fully in this Member Information Statement under the heading “Description of Saucon Holding Offering.” An Eligible Member who subscribes for the shares of Saucon Holding will not receive Member Compensation. An investment in the shares of Saucon Holding shares is subject to significant risks. Prospective investors should carefully review this Member Information Statement and all of the enclosed documents and materials, evaluate the risks, and consider whether the shares of Saucon Holding would be a suitable investment, before making an investment decision.

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

The proposed conversion of Saucon Mutual and the other transactions contemplated by the Plan are more fully described in this Member Information Statement. You are strongly encouraged to read it, and its exhibits, in their entirety and consider them carefully.

GLOSSARY

“Agency” means Saucon Insurance Agency, Inc., an insurance agency that is currently a wholly-owned subsidiary of Saucon Mutual and which will, upon the closing of the Conversion Transactions, become a wholly-owned subsidiary of Saucon Holding.

“Board of Directors” means the board of directors of Saucon Mutual.

“Company” refers to Saucon Mutual prior to the closing date of the Conversion Transactions, and to Saucon Insurance Company after the closing date of the Conversion Transactions.

“Control Group” means that group of individuals, each of whom was either the Chief Executive Officer of Saucon Mutual or a member of the Board of Directors of Saucon Mutual as of March 22, 2017 (the date on which the Plan was approved by the Board of Directors), even if that individual subsequently ceases to hold such status.

“Conversion Transactions” means the transactions contemplated by the Plan which will convert Saucon Mutual into a stock corporation as more fully described in this Member Information Statement under the heading “Description of Conversion Transactions.”

“Eligible Members” means any member of Saucon Mutual as of August 27, 2014. The principles for determining who is an Eligible Member are discussed in this Member Information Statement under the heading “Questions and Answers Relating to the Special Meeting, the Plan and the Conversion Transactions—Who is an Eligible Member of Saucon Mutual?”

“First Stage Offering” means the offering of all of the shares of Saucon Holding to Non-Control Group Eligible Members as more fully described in this statement under the heading “Description of Saucon Holding Offering—First Stage Offering.”

“First Stage Offering Deadline” means ***[DATE] [NOTE TO PENNSYLVANIA INSURANCE DEPARTMENT- This date will be at least 40 days after the mailing of this Member Information Statement, but before the scheduled date of the Special Meeting.]***

“First Stage Offering Subscription Agreement” means a subscription agreement, in the form attached as Exhibit 4 to this Member Information Statement, that has been completed, executed and returned by a Non-Control Group Eligible Member to Saucon Mutual by the First Stage Offering Deadline.

“First Stage Offering Subscription Documents” means, with respect to a particular Eligible Member, the First Stage Offering Subscription Agreement, the questionnaire attached as Exhibit A to the First Stage Offering Subscription Agreement and, if the Eligible Member is subscribing for five percent or more of the shares of Saucon Holding, a joinder to the Saucon Holding Shareholder Agreement.

“Member Compensation” means the compensation described in this Member Information Statement under the heading “Description of Member Compensation” that, if the closing of the Conversion Transactions occurs, is to be paid to Eligible Members who do not subscribe for shares of Saucon Holding in the Saucon Holding Offering.

“Member Information Statement” means this member information statement, proxy statement and offering document.

“Non-Control Group Eligible Member” means any Eligible Member who is not a member of the Control Group.

“Plan” means the Third Amended and Restated Alternative Plan of Conversion of Saucon Mutual Insurance Company, which is being submitted to the Eligible Members for their approval at the Special Meeting. A copy of the Plan is attached to this Member Information Statement as Exhibit 1.

“Saucon Holding” means Saucon Holding Company, the stock corporation that is being organized to become the holding company of Saucon Insurance Company and of the Agency upon the closing of the Conversion Transactions.

“Saucon Holding Offering” means, collectively, the offering to subscribe for shares of Saucon Holding in the First Stage Offering and the Second Stage Offering (if there is one).

“Saucon Holding Shareholder Agreement” means the shareholder agreement of Saucon Holding, in the form attached as Exhibit 5.

“Saucon Mutual” means Saucon Mutual Insurance Company.

“Second Stage Offering” means the offering to the Control Group of all of the shares of Saucon Holding that are not subscribed for by Non-Control Group Eligible Members in the First Stage Offering, as more fully described in this statement under heading “Description of Saucon Holding Offering—Second Stage Offering.”

“Second Stage Offering Subscription Documents” means the Second Stage Offering subscription agreement and the questionnaire attached as Exhibit A to the Second Stage Offering subscription agreement, which are attached as Exhibit H to the Plan, and a joinder to the Saucon Holding Shareholder Agreement.

“Shareholder Agreement Parties” means the persons who become parties to the Saucon Holding Shareholder Agreement.

“Special Meeting” is the Special Meeting of the Eligible Members of Saucon Mutual that is to be held on [DATE], 2017 to consider and vote upon the Plan and the related amendment to the articles of incorporation of Saucon Mutual.

“StoneRidge” means StoneRidge Advisors LLC, the firm that the Pennsylvania Insurance Department engaged to perform a valuation analysis of Saucon Mutual and a fairness opinion with respect to the Conversion Transactions. StoneRidge’s reports are attached to this Member Information Statement as Exhibit 6.

QUESTIONS AND ANSWERS RELATING TO THE SPECIAL MEETING, THE PLAN AND THE CONVERSION TRANSACTIONS

Why has this Member Information Statement been sent to me?

This Member Information Statement has been sent to all Eligible Members of Saucon Mutual. Because Saucon Mutual is a mutual insurance company, every Eligible Member has certain voting rights, including the right to vote on a proposed conversion of Saucon Mutual to a stock insurance company.

The Board of Directors of Saucon Mutual has approved a Plan that would, among other things, convert Saucon Mutual to a stock insurance company. These transactions are referred to as the "Conversion Transactions." The Plan is being submitted to the Eligible Members of Saucon Mutual for their approval, since the closing of the Conversion Transactions cannot occur unless (among other things) the Plan is approved by the Eligible Members.

The Special Meeting has been called so that the Eligible Members of Saucon Mutual can vote on the Plan and the related amendment to Saucon Mutual's articles of incorporation. This Member Information Statement and the accompanying proxy materials have been sent to you to afford you the right to subscribe for shares of Saucon Holding in the Saucon Holding Offering in lieu of receiving Member Compensation and to solicit your proxy to vote in favor of approving the Plan and the related amendment to Saucon Mutual's articles of incorporation.

What are the transactions contemplated by the Plan?

The Plan contemplates the following transactions:

- 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, Saucon Holding, would purchase the shares of Saucon Insurance Company and become the sole shareholder of Saucon Insurance Company. Eligible Members would not have any membership interest or rights in Saucon Insurance Company but would continue to have coverage under their insurance policies with Saucon Insurance Company.
- Saucon Holding would issue its shares to investors by means of a stock offering, which is referred to in this Member Information Statement as the "Saucon Holding Offering." The Saucon Holding Offering would be made available: (i) first, to the Non-Control Group Eligible Members (this is called the "First Stage Offering"); and (ii) second, to the members of the Control Group (this is called the "Second Stage Offering"). The Saucon Holding Offering is discussed more fully in this Member Information Statement under the heading "Description of Saucon Holding Offering." Refer to the Glossary at the beginning of this Member Information Statement for an explanation of the terms Non-Control Group Eligible Members and Control Group. The right of the members of the Control Group to participate in the Saucon Holding Offering creates a conflict of interest for the Board of Directors as is discussed more fully in this Member Information Statement under the heading "Conflict of Interest."

- An entity reorganization would occur immediately after the conversion that would cause the Agency, an insurance agency that is currently a wholly-owned subsidiary of Saucon Mutual, to become a wholly-owned subsidiary of Saucon Holding (and a sister company of Saucon Insurance Company).

These transactions are collectively referred to in this Member Information Statement as the “Conversion Transactions.” These transactions are described more fully below under the heading “Description of Conversion Transactions.”

How will the Conversion Transactions affect me?

If the closing of the Conversion Transactions occurs, Eligible Members who do not subscribe for shares of Saucon Holding in the Saucon Holding Offering will receive consideration, including cash payments, which is referred to in this Member Information Statement as the “Member Compensation,” and is described more fully below under the heading “Description of Member Compensation.” However, Eligible Members who subscribe for shares in the Saucon Holding Offering will not receive that consideration.

Additionally, because Saucon Insurance Company would no longer be a mutual insurance company, policyholders would no longer have voting rights (such as the right to elect directors of the Company) or any other rights with respect to Saucon Insurance Company except for the coverage rights under their insurance policies with Saucon Insurance Company. A description of the changes in the policyholders’ rights that would result from the Conversion Transactions is set forth below under the heading “Description of Changes in Policyholders’ Rights.”

Policies of insurance issued by Saucon Mutual that are in force at the time of closing of the Conversion Transactions would remain in full force and effect. Saucon Mutual does not expect that the Conversion Transactions will have any negative impact on the Company’s financial strength or on its ability to pay claims and policy benefits.

How will my insurance policy be affected?

Policies of insurance issued by Saucon Mutual that are in force at the time of closing of the Conversion Transactions would remain in full force and effect. However, policyholders of Saucon Insurance Company will no longer be members of the Company and will therefore no longer have the rights of members of a mutual insurance company. These changes are described more fully below under the heading “Description of Changes in Policyholders’ Rights.”

For Eligible Members who do not subscribe for shares of Saucon Holding in the Saucon Holding Offering, in the case of perpetual policies, upon closing of the Conversion Transactions, Saucon Insurance Company will return 15% of the member’s deposits held by Saucon Mutual, as described more fully below under the heading “Description of Member Compensation.” Members who subscribe for shares of Saucon Holding in the Saucon Holding Offering will not receive that returned deposit. The return of these deposits will not affect the policies, which will continue to remain in force. Other than the deposits that are returned to members upon the closing of the Conversion Transactions, the deposits will continue to remain a liability of Saucon Insurance Company, fully refundable upon termination of each policy.

In addition, in the case of Eligible Members who hold perpetual policies and do not subscribe for shares of Saucon Holding in the Saucon Holding Offering, upon the closing of the Conversion Transactions those Eligible Members will no longer have to pay an additional annual deposit upon an increase in policy limits under provisions of the inflation adjustment endorsements.

Even after paying the Member Compensation that Eligible Members who do not subscribe for shares of Saucon Holding in the Saucon Holding Offering are to receive on account of the Conversion Transactions, Saucon Insurance Company will continue to maintain a level of surplus in excess of relevant legal requirements. Saucon Mutual does not expect that the Conversion Transactions will have any negative impact on the Company's financial strength nor on its ability to pay claims and policy benefits.

What rights as a member of Saucon Mutual would I lose if Saucon Mutual converts to a stock insurance company?

If Saucon Mutual converts to a stock insurance company, the members of Saucon Mutual would cease to be members of a mutual insurance company but would continue to be policyholders of Saucon Insurance Company. The primary rights that members of a mutual insurance company hold are voting rights, such as the right to elect directors and vote on a plan of conversion, and the right to receive any dividends declared by the Board of Directors. Following conversion, policyholders of Saucon Insurance Company would not, as such, have any voting rights or any right to participate in shareholder dividends. Policyholders would have the right to participate in policyholder dividends only if the insurance policies are amended in the future to include a participation provision and the Board of Directors declares a policyholder dividend, neither of which the Board of Directors plans to do. See the discussion below under the heading "Discussion of Conversion of a Mutual Insurance Company—Discussion of the Principal Characteristics of Saucon Mutual, and Your Rights as a Policyholder, Before and After the Conversion Transactions."

In consideration for the loss of member rights upon the closing of the Conversion Transactions, each Eligible Member of Saucon Mutual will be entitled to either (i) receive the Member Compensation set forth in the Plan, which Member Compensation is described more fully below under the heading "Description of Member Compensation"; or (ii) subscribe for shares of Saucon Holding in the Saucon Holding Offering, as described more fully below under the heading of "Description of Saucon Holding Offering."

Why does Saucon Mutual want to convert to a stock insurance company?

The Board of Directors of Saucon Mutual has determined that conversion into a stock insurance company is in the Company's and its members' best interests for several reasons, including:

- rewarding Saucon Mutual's members for their loyalty to the Company;
- making a charitable contribution in furtherance of the Company's ongoing commitment to the community and as a proxy for benefiting former policyholders of Saucon Mutual who will not participate in the Conversion Transactions;

- modernizing the Company’s governance structure;
- enabling the issuance of shares 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 and the benefits of the Conversion Transactions to both Saucon Mutual and the Eligible Members are explained more fully below under the heading “Background to the Conversion Transactions of Saucon Mutual—Considerations For and Against the Conversion Transactions.”

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

The closing of the Conversion Transactions will not, in and of itself, affect any of the insurance policies issued by Saucon Mutual. Thus, the terms of your policy with respect to coverage limits and deductibles and all policy documents, with the exception of the change of the Company’s name to Saucon Insurance Company on the declarations page and the removal of members’ rights in their capacity as members, will remain identical before and after the Conversion Transactions. If you are a perpetual policyholder and you do not subscribe for shares of Saucon Holding in the Saucon Holding Offering, you will not have to make additional deposits unless you elect to increase coverage under the policy, and the initial deposit that you made at policy inception plus all subsequent Annual Adjustment of Limits deposits will be paid to you in full upon termination of your policy – less the portion of your deposit that would be returned to you upon closing of the Conversion Transactions as explained more fully below under the heading “Description of Member Compensation.”

Who is an Eligible Member of Saucon Mutual?

An Eligible Member of Saucon Mutual means any member (i.e., any policyholder) of Saucon Mutual as of August 27, 2014. In accordance with Saucon Mutual’s existing procedures, the following paragraphs illustrate the principles for determining Eligible Members of Saucon Mutual under various circumstances, assuming in each case that the policy was in force on August 27, 2014:

- Single Policy With More Than One Person Specified as the Named Insured. In the case of a policy issued by Saucon Mutual where more than one person is specified as a named insured, then all of the persons identified as a named insured are collectively considered to be the Eligible Member with respect to that policy.

For example, if a particular Saucon Mutual policy identifies the named insured as “Mr. X and Mrs. Y” then Mr. X and Mrs. Y are collectively considered to be the Eligible Member of Saucon Mutual, which means that: (i) with respect to any matter upon which members of Saucon Mutual may vote (including the vote to approve this Plan at the Special Meeting), the vote would have to be made by Mr. X and Mrs. Y, acting jointly and casting a single vote; (ii) any decision to subscribe for shares of Saucon Holding in the First Stage Offering rather than receiving the

Member Compensation pursuant to the Plan would have to be made by Mr. X and Mrs. Y, acting jointly (if Mr. X and Mrs. Y in fact subscribe for shares of Saucon Holding in the Saucon Holding Offering, the subscription would have to be made by, and the issuance of the shares would be made to, Mr. X and Mrs. Y, jointly); and (iii) if Mr. X and Mrs. Y do not subscribe for shares of Saucon Holding in the Saucon Holding Offering and therefore receive Member Compensation pursuant to the Plan, then the check for the Member Compensation will be made payable to Mr. X and Mrs. Y (in the same manner that a claim on the policy would have been paid).

- Two or More Policies With the Same Named Insureds. If there are two or more Saucon Mutual policies which each identify as the named insured or named insureds a particular person or a particular set of persons, then that person or set of persons is considered to be a single Eligible Member with respect to all of those policies, in the same manner as described above under the heading “Single Policy With More Than One Person Specified as the Named Insured.”

For example, if there are two Saucon Mutual policies that each identify Mr. Z as the sole named insured, then Mr. Z would have the right to cast only one vote (and not two votes), and would make a single decision regarding whether to subscribe for shares of Saucon Holding in the Saucon Holding Offering or to receive Member Compensation. Similarly, if there are two Saucon Mutual policies that each identify “Mr. G and Mrs. H” as the named insureds, then (i) with respect to any matter upon which members of Saucon Mutual may vote (including the vote to approve this Plan at the Special Meeting), the vote would have to be made by Mr. G and Mrs. H, acting jointly and casting a single vote (and not two votes even though they hold two policies); (ii) any decision to subscribe for shares of Saucon Holding in the First Stage Offering rather than receiving the Member Compensation pursuant to the Plan would have to be made by Mr. G and Mrs. H, acting jointly (if Mr. G and Mrs. H in fact subscribe for shares of Saucon Holding in the Saucon Holding Offering, the subscription would have to be made by, and the issuance of the shares would be made to, Mr. G and Mrs. H, jointly); and (iii) if Mr. G and Mrs. H do not subscribe for shares of Saucon Holding in the Saucon Holding Offering and therefore receive Member Compensation pursuant to the Plan, then the check for the Member Compensation will be made payable to Mr. G and Mrs. H (in the same manner that a claim on the policies would have been paid).

- Two or More Policies With Named Insureds that are Not the Same. In the case of two or more policies issued by Saucon Mutual where the named insured or named insureds on each are not the same, then the named insured or named insureds on each such policy are considered to be a separate Eligible Member.

For example, if a particular Saucon Mutual policy identifies the named insureds as “Mr. V and Mrs. W,” and a second policy identifies the named insured as “Mr. V” alone, then “Mr. V and Mrs. W” are collectively considered to be a single Eligible Member of Saucon Mutual with respect to the first policy, but Mr. V alone is considered to be a distinct Eligible Member of Saucon Mutual with respect to the second policy, with a separate right to vote and subscribe for shares of Saucon Holding in the Saucon Holding Offering or to receive Member Compensation. In this case, even if Mr. V and Mrs. W, acting jointly as the named insureds under the first policy, elect to (i) vote to approve the Plan and (ii) receive Member Compensation pursuant to the Plan rather than subscribing for shares of Saucon Holding in the Saucon Holding Offering;

Mr. V (acting alone with respect to the second policy for which he is the sole named insured) could elect to vote against approving the Plan, and could elect to either subscribe for shares of Saucon Holding in the Saucon Holding Offering or receive Member Compensation.

If my policy terminated after August 27, 2014, will I still receive Member Compensation?

If the Plan is approved and the Conversion Transactions close, an Eligible Member would receive the Member Compensation calculated through the termination date of the policy (unless that Eligible Member subscribes for shares of Saucon Holding in the Saucon Holding Offering, in which case that Eligible Member would not receive any Member Compensation.)

However, in the case of a perpetual policyholder whose policy terminated after August 27, 2014, the Member Compensation would not include any return of deposit since the deposit would have already been returned when the policy was terminated. Likewise, in the case of an Eligible Member who is a non-perpetual policyholder whose policy terminated after August 27, 2014, that Eligible Member's Member Compensation would not include a return of 15% of current premium since that Eligible Member's current premium would be \$0 as of the closing of the Conversion Transactions.

The Member Compensation is described more fully below under the heading "Description of Member Compensation."

What are the future plans for Saucon Mutual and what impact will implementation of these plans have on Saucon Insurance Company after the closing of the Conversion Transactions?

Saucon Mutual has a conservative business plan for Saucon Insurance Company that provides for it to deliberately and methodically take the steps necessary to re-enter the insurance underwriting business while preserving its surplus. Upon the closing of the Conversion Transactions, Saucon Insurance Company intends to immediately begin work on developing infrastructure for underwriting insurance, including systems, claims, underwriting staff and structure, documentation and development of a distribution network. While this infrastructure is being developed, Saucon Insurance Company intends to re-enter insurance underwriting in an indirect and measured way by initially exploring reinsurance opportunities where Saucon Insurance Company would be the quota share reinsurer of compatible products of another insurer.

Who will own the insurance company after the closing of the Conversion Transactions?

If the Conversion Transactions close, Saucon Insurance Company will become a wholly-owned subsidiary of Saucon Holding, a newly-organized corporation, upon its purchase of all of the shares of Saucon Insurance Company.

Saucon Holding, in turn, would be owned by those investors who subscribe for its shares in the Saucon Holding Offering. As described more fully below under the heading "Description of Saucon Holding Offering," the Saucon Holding Offering would be made available: (i) first, to the Non-Control Group Eligible Members; and (ii) second, to the members of the Control Group.

An Eligible Member who subscribes for those shares will not have the right to receive the Member Compensation that results from the Conversion Transactions, as described more fully under the heading “Description of Member Compensation.”

The right of the members of the Control Group to participate in Saucon Holding Offering creates a conflict of interest for the Board of Directors as is discussed more fully in this Member Information Statement under the heading “Conflict of Interest.”

Have the Conversion Transactions been approved by the relevant government agency?

Yes. On [DATE], the Pennsylvania Insurance Department approved:

- the Plan;
- the name change to “Saucon Insurance Company”; and
- a Form A (Acquisition of Control of, or Merger With, a Domestic Insurer), which must be filed because the Conversion Transactions will constitute a change of control of Saucon Mutual.

The Pennsylvania Insurance Department was required by Pennsylvania law to approve the Plan if it found that the Plan does not prejudice the interests of Saucon Mutual’s members, is fair and equitable, and complies with the applicable statute. Please note, however, that the Pennsylvania Insurance Department’s approval of the Plan should not be taken as constituting the endorsement of the Conversion Transactions by the Pennsylvania Insurance Department, and the Pennsylvania Insurance Department’s approval does not affect the right of Eligible Members to vote either for or against the Plan.

Additional detail regarding the filing and the Pennsylvania Insurance Department’s approval of the Plan is set forth in this Member Information Statement under the heading “Background to the Conversion Transactions.”

Please also note that additional approvals by the Pennsylvania Insurance Department may be required in connection with a subscription for shares of Saucon Holding in the Saucon Holding Offering by a Non-Control Group Eligible Member:

- Acquisition of five percent or more of the outstanding shares of Saucon Holding will be conditioned on approval by the Pennsylvania Insurance Department; and
- Acquisition of ten percent or more of the outstanding shares of Saucon Holding will be conditioned upon that subscriber separately filing a Form A with the Pennsylvania Insurance Department, and the Conversion Transactions and the Saucon Holding Offering would not proceed until that Form A has been approved by the Pennsylvania Insurance Department.

The Plan requires that, in either case, such a subscription will be conditioned upon that subscriber using good faith efforts to timely obtain the Pennsylvania Insurance Department’s approval.

What vote of the Eligible Members will be required to approve the Plan?

Under Pennsylvania law, the Plan may be effected only if the Plan and the amendment of Saucon Mutual’s articles of incorporation (in the form attached hereto as Exhibit 2) are approved by the

affirmative vote, in person or by proxy, of at least two-thirds of the Eligible Members that are cast at the Special Meeting.

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

The Board of Directors has called the Special Meeting to occur on [DATE] to consider and vote on the Plan. Only Eligible Members will be entitled to notice of, and to vote at, the Special 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 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. Eligible 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?

Saucon Mutual's audited financial statements for the fiscal years ended December 31, 2016, 2015 and 2014 are attached as Exhibit 3 to this Member Information Statement. Those audited financial statements were prepared in accordance with generally accepted accounting principles in the United States.

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 and "FOR" the proposal to amend Saucon Mutual's articles of incorporation. As discussed more fully under the heading "Conflict of Interest," the Saucon Mutual Board of Directors has a conflict of interest with respect to this recommendation.

What documents must I complete and return to Saucon Mutual in order to receive Member Compensation?

An Eligible Member who wishes to receive the Member Compensation rather than participating in the Saucon Holding Offering should complete, sign and return to Saucon Mutual the enclosed Form W-9, as described more fully under the heading “Description of Member Compensation - Instructions Related to Form W-9.” An Eligible Member who wishes to receive the Member Compensation may, but is not required to, complete, sign and return the proxy card. However, an Eligible Member who wishes to receive the Member Compensation should not complete, sign or return the First Stage Offering Subscription Agreement, the accompanying questionnaire, or the joinder to the Saucon Holding Shareholder Agreement.

Do I have to vote to approve the Plan in order to receive the Member Compensation or participate in the Saucon Holding Offering?

No. If the Plan is approved and the Conversion Transactions close, all Eligible Members will either receive the Member Compensation or participate in the Saucon Holding Offering, in each case whether they voted “FOR” approval of the Plan, “AGAINST” approval, or did not vote at all. Specifically: (i) any Eligible Member who decides not to receive the Member Compensation and therefore timely completes, signs and returns their First Stage Offering Subscription Documents to Saucon Mutual as described under the heading “Instructions for Participation in the Saucon Holding Offering,” together with tendering the subscription price, will subscribe for shares of Saucon Holding (unless one of the exceptions described under the heading “Description of Saucon Holding Offering” applies); and (ii) all other Eligible Members will receive Member Compensation.

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

Yes. Saucon Holding will issue and sell up to 3,250,000 shares of Saucon Holding’s stock, par value one cent per share, at a purchase price of one dollar per share in the Saucon Holding Offering. Subject to certain limitations detailed under the heading “Description of Saucon Holding Offering—First Stage Offering,” Eligible Members who choose to subscribe for shares of Saucon Holding may acquire as few as five hundred shares or as many as all of the available shares of Saucon Holding.

However, an investment in the shares of Saucon Holding is subject to significant risks. For more information about some of these risks, see below under the heading “Risk Factors Relevant to the Saucon Holding Offering.” An Eligible Member who subscribes for Saucon Holding’s shares will not receive Member Compensation.

If I subscribe for shares of Saucon Holding in the Saucon Holding Offering, will I receive the Member Compensation that results from the Conversion Transactions?

No. Eligible Members who subscribe for shares of Saucon Holding in the Saucon Holding Offering will not receive the Member Compensation contemplated in the Plan. Each Eligible Member must elect to either receive the Member Compensation or subscribe for shares, but may not do both.

If I subscribe for shares of Saucon Holding in the Saucon Holding Offering, what documents must I execute and return, what is the deadline for doing so, and when must I tender my subscription price?

Participation in the First Stage Offering will be limited to Non-Control Group Eligible Members who complete and sign the First Stage Offering Subscription Documents and return them to Saucon Mutual on or before the First Stage Offering Deadline, in accordance with the instructions set forth in this Member Information Statement under the heading "Instructions for Participation in the Saucon Holding Offering." The First Stage Offering Subscription Documents will include the First Stage Offering Subscription Agreement in the form attached as Exhibit 4 to this Member Information Statement, together with the accompanying questionnaire, and may include a joinder to the Saucon Holding Shareholder Agreement (whether an subscriber is required to complete the joinder is detailed under the heading "Description of Shareholder Agreement for Saucon Holding Company.")

An Eligible Member who subscribes for shares of Saucon Holding must tender the subscription price on or before the First Stage Offering Deadline.

What are the limitations on my right to subscribe for shares of Saucon Holding in the First Stage Offering?

The right of Non-Control Group Eligible Members to subscribe for shares of Saucon Holding in the First Stage Offering will be subject to certain conditions and limitations, which are described more fully in this Member Information Statement under the heading "Description of Saucon Holding Offering."

What happens if I do not timely sign or return the First Stage Offering Subscription Documents?

Only Eligible Members who timely complete, sign and return their respective First Stage Offering Subscription Documents to Saucon Mutual, and tender the subscription price in accordance with the instructions set forth below under the heading "Instructions for Participation in the Saucon Holding Offering" will be eligible to subscribe for shares of Saucon Holding. Eligible Members who do not timely return the First Stage Offering Subscription Documents will be deemed to have declined to participate in the Saucon Holding Offering but will receive the Member Compensation if the Conversion Transactions close.

What happens if I timely sign and return the First Stage Offering Subscription Documents, and tender my subscription price, but my subscription cannot be accepted by reason of the limitations described in the Plan and this Member Information Statement?

If an Eligible Member timely completes, signs and returns his, her and/or its First Stage Offering Subscription Documents to Saucon Mutual and concurrently tenders the subscription price, but the subscription cannot be accepted by reason of the limitations described in the Plan and this Member Information Statement, then that Eligible Member's First Stage Offering Subscription Documents will not be of any force or effect, that Eligible Member's tendered subscription price will be returned with interest, and that Eligible Member will receive the Member Compensation if and when the Conversion Transactions close.

Where can I get more information about the risk factors that I should consider before deciding whether to subscribe for shares of Saucon Holding in the Saucon Holding Offering?

An investment in the shares of Saucon Holding in the Saucon Holding Offering is subject to significant risks, and may be suitable only for persons with the financial capacity for making and holding long-term investments that are not readily reducible to cash. Prospective subscribers for the shares must, therefore, have adequate means of providing for their current needs and personal contingencies. Any person who cannot bear the risk of loss of their entire investment in the Saucon Holding shares should not subscribe for the shares. Some of the more significant risks are described under the heading “Risk Factors Relevant to the Saucon Holding Offering” below, and a prospective subscriber for the Saucon Holding shares should carefully evaluate these risk factors and the other information set forth in this Member Information Statement, including the Plan and the other exhibits. Prospective subscribers should consider, however, that additional factors other than those set forth below may also affect the risks of investing in Saucon Holding’s shares in a manner and to a degree that cannot be foreseen at this time.

Has a valuation of Saucon Mutual been performed?

Yes. StoneRidge was engaged by the Pennsylvania Insurance Department to conduct an independent valuation analysis of Saucon Mutual. As part of its review, Stoneridge stated that it reviewed extensive information and performed other due diligence. StoneRidge based its valuation on two valuation methodologies: the sum of the parts analysis and the discounted cash flow analysis. Based upon the average of these two valuation methodologies, StoneRidge selected a valuation range for Saucon of between \$2.4 million and \$3.2 million. A copy of StoneRidge’s valuation report is attached to this Member Information Statement as Exhibit 6. StoneRidge’s analysis is discussed in this Member Information Statement under the heading “Valuation Analysis of Saucon Mutual by StoneRidge.”

The aggregate subscription price for all of the 3,250,000 shares of Saucon Holding, which are being offered in the Saucon Holding Offering for a subscription price of one dollar per share, is \$3,250,000. That aggregate subscription price is larger than the higher end of StoneRidge’s valuation range for Saucon Mutual. This means that subscribers for the shares of Saucon Holding would be paying an amount for those shares in the aggregate that exceeds the higher end of StoneRidge’s valuation range for Saucon Mutual.

Has a fairness opinion been obtained with respect to the Conversion Transactions?

[NOTE TO PENNSYLVANIA INSURANCE DEPARTMENT: PLACEHOLDER FOR DESCRIPTION OF FAIRNESS OPINION FROM STONERIDGE.]

Where can I get more information about the transactions described in this 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. You also may view copies of all nonconfidential documents filed by Saucon Mutual, Pennsylvania Insurance Department notices in the Pennsylvania Bulletin, comments received by the Pennsylvania Insurance Department and Saucon Mutual’s responses to those comments, and information relating to any Public Informational Hearing on

the Pennsylvania Insurance Department's website at www.insurance.pa.gov. Additionally, after first scheduling an appointment, consumers may also view the application and supplemental documents at the Pennsylvania Insurance Department's Harrisburg office, which can be reached at (717) 787-0877.

CONFLICT OF INTEREST

Interests of Saucon Mutual's Board of Directors and Management in the Conversion Transactions

In considering the recommendation by Saucon Mutual's Board of Directors that the Eligible Members approve the Conversion Transactions, the Eligible Members should be aware that Saucon Mutual's Board of Directors and management have interests in the Conversion Transactions. Saucon Mutual's Board of Directors was aware of this conflict of interest and considered it, among other matters, in reaching its decision to approve the Conversion Transactions and to recommend that Saucon Mutual's Eligible Members vote in favor of approving them.

The members of the Board of Directors, who approved the Plan, have a conflict of interest because the Control Group, which largely consists of the members of the Board of Directors, seeks to acquire a controlling interest in the Company by purchasing shares of Saucon Holding in the Second Stage Offering.

Because ownership of the Company is not being offered by sale on an open market, it is difficult to determine an open market value for the Company. If shares of the Company were offered on the open market, assuming that the Pennsylvania Insurance Department approved such a transaction, the sale price might have been more, the same or less than the amount that Saucon Holding will pay. In addition, while the Pennsylvania Insurance Department obtained an independent valuation analysis of Saucon Mutual from StoneRidge, there can be no assurance that the independent valuation analysis opinion presents an accurate prediction of the value of Saucon Mutual.

Having been advised of this conflict of interest, the Eligible Members have the opportunity to vote whether to accept or reject the Conversion Transactions. Additionally, Eligible Members will have the opportunity, subject to certain limitations, to subscribe for shares of Saucon Holding in the Saucon Holding Offering.

Participation in the Stock Offering of Saucon Holding by Saucon Mutual's Board of Directors and Management

As part of the Conversion Transactions, Saucon Insurance Company will become a wholly-owned subsidiary of Saucon Holding, a recently-formed stock holding company, through the purchase of all of the shares of Saucon Insurance Company for a purchase price of \$1,425,000. Saucon Holding will in turn be owned by investors who subscribe for its shares in the Saucon Holding Offering, as described more fully below under the heading "Description of Saucon Holding Offering." These investors will subscribe for 3,250,000 shares of Saucon Holding at a subscription price of one dollar per share, resulting in Saucon Holding receiving \$3,250,000 in gross proceeds.

The Saucon Holding Offering consists of the First Stage Offering and the Second Stage Offering. The First Stage Offering will be limited to Non-Control Group Eligible Members, which means that the members of Saucon Mutual's Board of Directors and management will not have the right to participate in the First Stage Offering even if they are Eligible Members. If the First Stage Offering results in 49% or fewer of the shares of Saucon Holding being subscribed for by Non-Control Group Eligible Members, then the Second Stage Offering will proceed. The Second Stage Offering will be an offering by Saucon

Holding to issue and sell to members of Control Group any of the 3,250,000 shares of Saucon Holding that remain available after the end of the exercise period for the First Stage Offering, at a subscription price of one dollar per share.

Nine individuals, all of whom are members of the Control Group, are expected to subscribe for shares of Saucon Holding in the Second Stage Offering. Saucon Mutual expects that two of those individuals will acquire, in the aggregate, up to 92.95% of the Saucon Holding shares if that many shares of Saucon Holding remain available after the conclusion of the First Stage Offering. The other seven investors will in the aggregate acquire the remaining Saucon Holding shares that will be offered, subject to the limitations described below. If for any reason any of the seven smaller Control Group investors fails to subscribe for the number of Saucon Holding shares that they had indicated an interest in subscribing for, it is expected that those shares will be re-allocated among the other participants in the Second Stage Offering. Each of the largest two investors has indicated a readiness to purchase additional Saucon Holding shares if they become available in the Second Stage Offering, but only so long as the participants in the Second Stage Offering will, in the aggregate, hold at least 51% of the outstanding shares of Saucon Holding upon the closing of the Conversion Transactions.

All members of the Control Group, since they will subscribe for shares of Saucon Holding in the Second Stage Offering, will be required to join and become parties to the Saucon Holding Shareholder Agreement, which is described more fully below under the heading “Description of Saucon Holding Offering—Description of Saucon Holding Shareholder Agreement.”

The subscription price per share for the shares of Saucon Holding that are being offered in the Saucon Holding Offering was determined in the manner described below under the heading “Description of Saucon Holding Offering—Description of Methodology for Determining Offering Price for the Saucon Holding Offering.”

Low Likelihood of Subsequent Change of Control

It is expected that the transfer restrictions and share repurchase provisions set forth in the Saucon Holding Shareholder Agreement, together with the fact that the shares of Saucon Holding will not be publicly traded and that Pennsylvania law imposes restrictions and requirements on a change of control of a Pennsylvania insurance company, will in the aggregate have the result that the subscribers who purchase the shares of Saucon Holding in the Saucon Holding Offering will own and control Saucon Holding and therefore Saucon Insurance Company for the foreseeable future. For these reasons, Saucon Mutual does not believe that after the Conversion Transactions close, a subsequent change in control of Saucon Holding or of Saucon Insurance Company is likely to occur in the foreseeable future.

Evaluation of Conflict of Interest

Each member of the Board of Directors recognized the conflict of interest that results from board members purchasing the shares of Saucon Holding, which in turn will purchase the shares of Saucon Insurance Company, and considered this conflict of interest among other matters, in reaching their respective decision to approve the Plan and to recommend it to the Eligible Members. The Board of Directors has taken steps throughout the process of considering, approving and recommending the Conversion Transactions to ensure that the conflict is appropriately addressed. The Board of Directors

worked with outside industry experts to determine objectives for the Company. The Board of Directors then reviewed available options against those objectives to determine which option it believed was best for Saucon Mutual and its members as more fully described below under the heading “Background to the Conversion Transactions.” It is ultimately up to the Eligible Members, however, to determine whether the proposed Conversion Transactions are in the best interests of Saucon Mutual and, in turn, their best interests.

DISCUSSION OF CONVERSION OF A MUTUAL INSURANCE COMPANY

Description of Conversion

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 converted stock insurance companies that have a holding company. The chart also illustrates how the rights of policyholders differ in the two structures.

	Mutual Insurance Companies	Stock Insurance Companies That Have a Holding Company
Disposition of proceeds of a liquidation of the company	Upon liquidation of a mutual insurance company that is authorized to write fire insurance, the remaining proceeds (after satisfaction of liabilities and claims) would be escheated to the Commonwealth of Pennsylvania (“escheat” means a reversion or forfeiture of the property back to the Commonwealth).	The holding company, as the sole shareholder of the insurance 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 the policy expires or is terminated.	Ownership of the shares of a stock insurance company is not related to the status of any insurance policy.
Existence of shareholders	Company has members but no shareholders.	Company has both shareholders (of the holding company and the insurance company) and policyholders (of the insurance company).
Dividends	Payable to members if and as declared by the board of directors, and subject to restrictions as provided by law.	Payable to shareholders and/or policyholders if and as declared by the board of directors, and subject to restrictions as provided by law.
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 the Conversion Transactions

Each Eligible Member's membership interest in Saucon Mutual will be exchanged for either Member Compensation or the right to subscribe for shares of Saucon Holding in the Saucon Holding Offering, at the Eligible Member's election. Policyholders of Saucon Mutual have membership interests in Saucon Mutual. Membership interests include the right to vote on matters submitted to members (such as the election of directors and the approval of a plan of conversion), the right to participate in any dividends declared by the Board of Directors, and the right to receive consideration or subscribe for shares of Saucon Holding as provided in an approved plan of conversion.

Upon the conversion of Saucon Mutual as contemplated under the Plan, all of the membership interests of all members will cease to exist. In exchange, Eligible Members will have the right to either: (1) receive the Member Compensation in accordance with the Plan, or (2) subscribe for shares of Saucon Holding in the Saucon Holding Offering. Each Eligible Member must elect one of these two alternatives: an Eligible Member may either receive the Member Compensation, or participate in the Saucon Holding Offering by subscribing for shares, but an Eligible Member may not do both. Any Non-Control Group Eligible Member who does not complete, execute and return a First Stage Offering Subscription Agreement and tender the subscription price by the relevant deadline will be presumed to have elected not to subscribe for shares of Saucon Holding in the First Stage Offering but will receive Member Compensation.

The Member Compensation is described more fully below under the heading "Description of Member Compensation." The Saucon Holding Offering is described more fully below under the heading "Description of Saucon Holding Offering." Each Eligible Member should carefully read this Member Information Statement and the other accompanying materials in order to inform that Eligible Member's decision as to the available alternatives.

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 conversion, the Company will be owned by Saucon Holding. Saucon Holding, in turn, will be owned by the investors who participate in the Saucon Holding Offering, as described more fully below under the heading "Description of Saucon Holding Offering."

Some policyholders may be concerned that their interests and those of the shareholders of Saucon Holding and of Saucon Insurance Company might not be the same after conversion. In particular, shareholders may be more interested in financial performance as it relates to the value of their investment in the shares, 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 conversion 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 Conversion Transactions will not, in and of itself, adversely affect any of the insurance policies issued by Saucon Mutual, except that the name of the Company will change and 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.

Right of Board of Directors to Amend or Withdraw the Plan

Under Pennsylvania law, since the Plan has already been approved by the Pennsylvania Insurance Department, it may be amended by the affirmative vote of at least two-thirds of the members of the Board of Directors of Saucon Mutual; provided, however, that any such amendment also shall be subject to approval by the Pennsylvania Insurance Department. Once the Plan is approved by the Eligible Members at the Special Meeting, it can be amended before the closing of the Conversion Transactions only as 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 Eligible Members called for that purpose.

The Plan may be terminated at any time before the closing of the Conversion Transactions by the affirmative vote of at least two-thirds of the members of the Board of Directors of Saucon Mutual then in office. If that happens, then the Conversion Transactions and the Saucon Holding Offering will be abandoned, and none of the Eligible Members will be able to receive the Member Compensation or purchase shares of Saucon Holding and any previously-tendered subscription price in the Saucon Holding Offering will be returned with interest.

BACKGROUND TO THE CONVERSION 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 have no term, or date, when the policy expires. From the effective start date, the coverage exists until terminated. Saucon Mutual also issues non-perpetual policies. Because of its focus on perpetual insurance, Saucon Mutual has not declared or paid policyholder dividends within the past 25 years.

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 three employees and believes that it does not presently have the infrastructure that would enable it to successfully resume the underwriting of new insurance policies. The following circumstances have led to this result:

The impact of interest rates on perpetual business and Saucon Mutual's business model, the impact of the Greentree Perpetual Insurance Company insolvency on Saucon Mutual, and the decision to place a moratorium on writing new perpetual policies.

Perpetual policies are a unique product and, to Saucon Mutual's knowledge, it is one of three existing insurers in Pennsylvania that has written perpetual policies. The unique nature of perpetual policies is that, in lieu of annual premium payments, the policyholder makes one up-front payment (the deposit) and then no further payments throughout the life of the policy unless there is an increase in or addition of coverage. Upon termination of a perpetual policy, the deposit is returned in full to the policyholder. Because policyholder deposits are returnable at the end of the policy, they are treated as liabilities of the insurance company. Accordingly, the only source of revenue to pay claims and administrative costs under perpetual policies is the investment return on policyholder deposits.

Saucon Mutual has not written any new perpetual insurance policies since December 2005 and has written only a very limited number of term policies since that time because Saucon Mutual found – as have other insurers that have offered perpetual coverage – that it is difficult to maintain financial viability in a low interest rate environment.

In addition to the challenges presented by a low interest rate environment, there were a number of events that occurred in the 2004-2005 timeframe that caused the Saucon Mutual to declare a moratorium on writing new perpetual policies:

- First, in September 2004, Saucon Mutual was informed by the IRS that, due to a tax law change, Saucon Mutual would no longer be tax exempt. Saucon Mutual realized that this change would have an impact on the profitability and policyholder surplus growth of Saucon Mutual in future years.
- Second, during 2004 and 2005, Saucon Mutual had a significant increase in business as a result of the insolvency of Greentree Perpetual Insurance Company (a competitor of Saucon Mutual) and Saucon Mutual's writing of many Greentree perpetual clients (Saucon Mutual reported an increase in deposits as a result of this new business in the range of \$1.5 million during 2005). A consequence of writing these new policies for former Greentree clients was a reinsurance premium quote that was \$124,000 higher than the prior year. Saucon Mutual was able to lessen the increase to only approximately \$81,000 by negotiating differing limits of reinsurance coverage and increased retention levels. However, even with this lesser reinsurance premium increase, the investment return on the total deposits then held by Saucon Mutual would not be able to cover the increased cost of reinsurance, let alone losses, overhead or profit. As a result, Saucon Mutual questioned the profitability of its perpetual product and commissioned an actuarial study by Grace Actuarial Consulting Inc. to review Saucon Mutual's product and pricing. The conclusion of the actuary was that "the product loses significant amounts of money" and that the only way to try to reverse the perpetual product losses for new business was to charge a significantly higher deposit – which Saucon Mutual felt was not a feasible solution since it was unlikely that prospective perpetual policyholders would be willing to pay the amount of deposit necessary to achieve profitability.
- Third, in mid-2005, Saucon Mutual was informed by A.M. Best that, due to Saucon Mutual's declining surplus trend over the previous five years, Saucon Mutual would have to demonstrate significant changes in its business to maintain its A rating.

Each of these events also presented significant challenges to Saucon Mutual entering the insurance underwriting business for other products, i.e. term policies. For example, Saucon Mutual has the personnel and infrastructure needed to service its perpetual policies, but does not have sufficient personnel or infrastructure, or any distribution channel, to issue new policies. In addition, Saucon Mutual had difficulty attracting and retaining qualified management (four CEOs have been with Saucon Mutual since 2006 and it is only since Stephen Bajan's hiring in 2012 that Saucon Mutual has had stable management). Due to its challenges and a continued low interest rate environment, Saucon Mutual identified and met with several potential merger partners to see if it could address its challenges via merger; however, none of these discussions led to a viable merger proposal. As a result, Saucon Mutual's Board of Directors began the process of considering alternatives – including a conversion – for Saucon Mutual to be able to pursue its objective of re-entering the insurance business. The objectives of the Board of Directors and how they will be addressed by means of the Conversion Transactions are discussed in more detail below.

The history of the inflation endorsement.

Saucon Mutual initially issued homeowner's policies that included an inflation endorsement under which the policy limit would be adjusted on an annual basis but no additional deposits would be

required. In 2008, with the Pennsylvania Insurance Department's approval, Saucon Mutual changed policy forms to modernize its policies. The new policy form provided an inflation endorsement that included a requirement of additional deposits for the increase in coverage under the inflation endorsement.

Background to the Proposed Conversion

Saucon Mutual's Board of Directors met several times in 2013 and 2014 to discuss the general strategic direction of the Company. The Board of Directors identified its objectives for any future transactions as including the following:

- Rewarding 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.

Saucon Mutual's Board of Directors organized an informal strategic planning subcommittee whose members consisted of Brian T. Regan (President and Chairman of the Board), Stephen Bajan (Chief Executive Officer), and board member Michael G. Crofton. The strategic planning subcommittee considered Saucon Mutual's current financial condition, future prospects and the advice of its legal and financial advisors. The strategic planning subcommittee also examined other mutual-to-stock conversion structures in Pennsylvania under the various alternatives for mutual insurer conversions permitted by Pennsylvania law, including:

- Subscription rights conversions (where, in exchange for the extinguishment of their membership rights in the mutual insurer, members of the mutual insurer (*i.e.*, its policyholders) are given solely the right to purchase stock in the converted insurer and, if there is insufficient member interest in the purchase of such stock, the right to purchase is opened to others);
- Mutual holding company conversions (where a mutual holding company is formed with members of the mutual insurer exchanging their membership rights in the mutual insurance company for membership rights in the mutual holding company and their rights under the insurance contract remaining with the converted insurance company; and, in some mutual holding company conversions, where a stock holding company is formed in between the mutual holding company and the converted insurance company, and capital is raised for the stock holding company directly and the converting insurer indirectly by giving members and others the right to purchase stock in the stock holding company); and
- Alternative conversions (where the alternative plan gives members the right to purchase an ownership interest in the converted insurer or its stock holding company and/or receive consideration in exchange for their membership rights in the form of cash or coverage benefits, *e.g.*, a specified amount of coverage at no cost for a specified period of time).

In its examination and evaluation of prior conversions, the strategic planning subcommittee observed that, in subscription rights conversions and mutual holding company conversions by other mutual insurance companies that provided subscription rights in a stock holding company, very few policyholders of the converting mutual insurers chose to purchase stock in the converting insurer or the stock holding company (possibly because of a lack of ability or desire to invest in such stock or because, while the purchase of stock allows for the acquisition of an asset, it may be illiquid to the member and of no immediate value). Based on its review of previous transactions involving other mutual insurers, the strategic planning subcommittee concluded that a subscription rights conversion would not be compatible with the goal of rewarding members for their loyalty to the Company.

For mutual holding company conversions where the sole consideration is membership rights in the mutual holding company, there is nothing of immediate value given to the mutual insurer's members in consideration for extinguishment of their membership rights in the converting insurer. The strategic planning subcommittee also observed that mutual holding company conversions raise no capital unless the "second step," a stock holding company, is formed; that prior mutual holding company conversions resulted in subsequent conversion of the mutual holding company; and that few mutual holding company conversions have been pursued in recent years due to adverse litigation in prior conversions, the significant cost and timeframe for the two-step process, and the resulting policyholder confusion. The strategic planning subcommittee concluded that such a mutual holding company conversion would not be compatible with the goal of rewarding members for their loyalty to the Company.

After thoroughly reviewing its available strategic alternatives and discussing them with the Pennsylvania Insurance Department, the strategic planning subcommittee presented its conclusions to the Board of Directors. The Board of Directors concluded that pursuing an alternative plan of conversion presented the most attractive approach from a strategic, financial and operational point of view. With the authorization and direction of the Board of Directors, the strategic planning subcommittee, together with outside counsel and advisors, then prepared the original version of the plan of conversion.

At a meeting of the Board of Directors on August 27, 2014, the 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 of Directors then directed that the original version of the plan of conversion and the other related documents 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 comments on that original version of the plan of conversion with the Pennsylvania Insurance Department. By letter dated January 12, 2015, the Pennsylvania Insurance Department provided a list of additional items necessary to the review of the original plan of conversion and the related documents.

On February 4, 2015, the Board of Directors of Saucon Mutual unanimously approved an amended and restated plan of conversion to address those items. Subsequently, during April 2015, Saucon Mutual's management and counsel further discussed the proposed Conversion Transactions with the Pennsylvania Insurance Department. On April 27, 2015, the Board of Directors of Saucon Mutual approved an amendment and restatement of the amended and restated plan of conversion which was then filed,

together with certain documents, with the Pennsylvania Insurance Department for its approval on May 7, 2015 (the “Second Amended Plan”).

By notice in the Pennsylvania Bulletin dated July 25, 2015, the Pennsylvania Insurance Department advised of its scheduling of a Public Informational Hearing (the “Hearing”) to be held on September 1, 2015 at which Saucon Mutual members and interested persons would be able to present comments on the plan of conversion. Saucon Mutual also mailed a notice of the Hearing to all Eligible Members. The Hearing was conducted on September 1, 2015 and the proceeding was recorded by a court reporter. Subsequent to the Hearing, Saucon Mutual filed a response to presentations made by commenters and questions posed by the Pennsylvania Insurance Department at the Hearing (the “Saucon Mutual Response”).

Saucon Mutual also filed a revised version of this Member Information Statement on October 2, 2015, which included information contained in the Saucon Mutual Response. Saucon Mutual filed a subsequent version of this Member Information Statement on October 20, 2015 to address further comments made by the Pennsylvania Insurance Department. Each of the Pennsylvania Insurance Department and Saucon Mutual notices of the Hearing, the written transcript of the Hearing, the Saucon Mutual Response, and revised versions of the Member Information Statement are posted on the Pennsylvania Insurance Department’s website at www.insurance.pa.gov.

As announced by the Pennsylvania Insurance Department at the Hearing, after its receipt of the Hearing transcript and the Saucon Mutual Response, the Pennsylvania Insurance Department provided an additional public comment period during which no further comments were received.

Thereafter, in mid-December 2015, Saucon Mutual was advised of concerns by the Pennsylvania Insurance Department with the provisions of the Second Amended Plan and that no approval order would be forthcoming. After various discussions with the Pennsylvania Insurance Department on its concerns, Saucon Mutual proposed further amending the Second Amended Plan to provide to Eligible Members the option of either subscribing for shares of Saucon Holding or receiving the Member Compensation. Saucon Holding also agreed for the Pennsylvania Insurance Department to engage an independent consultant to perform a valuation analysis of Saucon Mutual and a fairness opinion on the plan of conversion. The Pennsylvania Insurance Department engaged Stoneridge to do this work, and the resulting Stoneridge valuation report dated November 29, 2016 and the fairness opinion dated [DATE] were issued.

On March 22, 2017, the Board of Directors of Saucon Mutual unanimously approved a Third Amended and Restated Alternative Plan of Conversion in the form attached to this Member Information Statement. References in this Member Information Statement to the “Plan” refer to the Third Amended and Restated Alternative Plan of Conversion. The Plan and certain related documents, including this Member Information Statement, were then filed with the Pennsylvania Insurance Department for its approval on April 3, 2017.

[NOTE TO PENNSYLVANIA INSURANCE DEPARTMENT – THIS IS A PLACEHOLDER FOR A DESCRIPTION OF THE PROCEDURAL STEPS BETWEEN FILING AND APPROVAL]

Subsequently, on [DATE], the Pennsylvania Insurance Department approved the Plan and certain related filings and transactions.

The Board of Directors of Saucon Mutual has directed that the Special Meeting be called to vote on the Plan and on the related amendment to Saucon Mutual's articles of incorporation, in accordance with applicable law.

Considerations For and Against the Conversion Transactions

There are potential risks and benefits with the proposed Conversion Transactions, just as there are risks and benefits with Saucon Mutual staying its current course. Saucon Mutual's Board of Directors believes that the proposed Conversion Transactions are the most appropriate and effective means of achieving the objectives set by the Board of Directors.

- Rewarding members for their loyalty to the Company. As described more fully below under the heading "Description of Member Compensation," the value of the Member Compensation that an Eligible Member of Saucon Mutual who does not subscribe for shares of Saucon Holding in the Saucon Holding Offering would receive upon the closing of the Conversion Transactions will depend, in part, upon the number of years that the Eligible Member's policy had remained in force. This permits Saucon Mutual to reward Eligible Members for their loyalty to the Company in maintaining their policies. Assuming that no Non-Control Group Eligible Members subscribe for shares of Saucon Holding in the First Stage Offering, the aggregate amount of the Member Compensation has been estimated to be approximately \$2,131,000 assuming a July 31, 2017 closing date and will be slightly higher with a later 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 Conversion Transactions, Saucon Insurance Company would make a \$500,000 cash contribution to the Lehigh Valley Community Foundation, a public charitable organization operating since 1967 for the purposes of stewarding philanthropic resources from institutional and individual donors to community-based organizations to serve the Lehigh Valley. The contribution committee of Saucon Insurance Company's Board of Directors will make recommendations to that foundation 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. The Board of Directors believes that such a charitable contribution will benefit not only the community in general, but also people in the community who once were, but no longer are, policyholders of Saucon Mutual and, thus, will not have the right to participate in the Conversion Transactions.
- 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 insurance 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 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 members for approval, which means that there is no particular relationship between a particular member’s commercial relationship with the company and the weight of that member’s vote. By way of contrast, in the case of a stock corporation, each shareholder is entitled to cast one vote per share, which means that a shareholder 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 ownership interest in Saucon Holding.

- 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 secure debt and other instruments issued to financing sources;
 - 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, thus giving 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.
- Preparing the Company to re-enter the insurance underwriting business. While Saucon Mutual is in a stable position from a financial point of view (see Saucon Mutual’s audited financial statements for the fiscal years ended December 31, 2016, 2015 and 2014, which are discussed below under the heading “Audited Financial Statements of Saucon Mutual” and which are attached as Exhibit 3 to this Member Information Statement), 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 conversion of the Company to a stock insurance 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 underwriting new insurance.

As described below, upon closing of the Conversion Transactions, Saucon Insurance Company intends to immediately begin work on developing infrastructure for underwriting insurance, including systems, claims, underwriting staff and structure, documentation and development of a distribution network. While this infrastructure is being developed, Saucon Insurance Company intends to re-enter insurance underwriting in an indirect and measured way by initially exploring reinsurance opportunities where Saucon Insurance Company would be the quota share reinsurer of compatible products of another insurer.

- Maintaining the independence of the Company. Upon the closing of the Conversion Transactions, Saucon Insurance Company will become a wholly-owned subsidiary of Saucon Holding. The shares of Saucon Holding in turn will be owned by the investors in the Saucon Holding Offering. All of the subscribers for shares of Saucon Holding in the Saucon Holding Offering will be Eligible Members, members of the Control Group, or both. See “Description of Saucon Holding Offering” and “Conflict of Interest.”

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

In this context 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 conversion into a stock insurance company 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 shares of Saucon Holding, or by purchasing control of the Company from Saucon Holding. However, the shares of Saucon Holding will not be publicly traded, so there is no marketplace through which such a third party can acquire shares of Saucon Holding. In addition, all shareholders of Saucon Holding who are either members of the Control Group or who acquire five percent or more of the shares of Saucon Holding will be required to enter into the Saucon Holding Shareholder Agreement that will, among other things, impose restrictions on the transfer of their shares. See “Description of Shareholder Agreement of Saucon Holding.”

Changes in control of a Pennsylvania stock insurance company are also subject to approval by the Pennsylvania Insurance Department in accordance with law. Although Saucon Holding could try to sell Saucon Insurance Company to a third party after the closing of the Conversion Transactions, such a transaction would have to be approved by Pennsylvania Insurance Department, as would any transactions that result in a change of control of Saucon Holding.

It is the intention and expectation of the Control Group that, assuming that the Control Group acquires the majority of the shares of Saucon Holding in the Saucon Holding Offering, no subsequent change in control of Saucon Holding or of Saucon Insurance Company is likely to occur in the foreseeable future.

Risks of Re-Entering the Insurance Underwriting Business

A.M. Best, the rating agency that rates Saucon Mutual, was informed of the proposed Conversion Transactions when Saucon Mutual first filed the original version of the plan of conversion with the Pennsylvania Insurance Department in September 2014. A.M. Best was satisfied that the Company’s financial strength would not be compromised by the conversion transactions as proposed by that version of the plan of conversion, hence the continuation of the Company’s “A” rating. However, the unknowns surrounding the risk involved in re-entering the insurance underwriting business after closing of those conversion transactions led it to assign a negative outlook. In January 2017, A.M. Best removed the negative outlook, but Saucon Mutual’s rating was downgraded from an “A” to “A-”. In its press release

regarding the ratings downgrade, A.M. Best noted that “[r]estructuring plans that have the potential to change the company’s business profile with regard to the source of new business and type of exposures insured have been discussed over the past few years. This new structure and profile pose execution risk and potential staffing implications.”

In light of A.M. Best’s concern about the unknown risks involved in re-entering the insurance underwriting business, the Company has a conservative business plan for Saucon Insurance Company that provides for it to deliberately and methodically take the steps necessary to re-enter the insurance underwriting business while preserving its surplus. Upon the closing of the Conversion Transactions, Saucon Insurance Company intends to immediately begin work on developing infrastructure for underwriting insurance, including systems, claims, underwriting staff and structure, documentation, and development of a distribution network. While this infrastructure is being developed, Saucon Insurance Company intends to re-enter insurance underwriting in an indirect and measured way by initially exploring reinsurance opportunities where Saucon Insurance Company would be the quota share reinsurer of compatible products of another insurer.

The Company will begin to engage in direct underwriting only when the necessary infrastructure and personnel are in place. Saucon Mutual has already conducted research of the market and believes there is an unmet need for additional capacity for property insurance for churches, which is a market to which the Company feels a certain affiliation because of its Moravian roots.

Litigation Relating to the Conversion Transactions

[NOTE TO PENNSYLVANIA INSURANCE DEPARTMENT: This description of the litigation will be updated before dissemination of this Member Information Statement to the members, so that this description can reflect any additional developments in the litigation that occur before the statement is delivered.]

On November 20, 2015, attorney Steven L. Block, of the plaintiffs’ firm Bailey & Glasser LLP, initiated a civil action with class and derivative allegations against Saucon Mutual, Saucon Holding and the individual members of Saucon Mutual’s Board of Directors. *Steinleitner et al. v. Saucon Mut. Ins. Co. et al.*, No 2015-cv-9456 (C.P. Dauphin). Block recruited plaintiffs by, among other things, placing an ad specifically directed to Saucon Mutual policyholders in the Allentown Morning Call and on the Bailey & Glasser website.

Plaintiffs’ complaint includes nine counts, including claims for breach of fiduciary duty, declaratory and injunctive relief due to supposedly untrue and misleading statements in the proposed proxy statement and a “fraudulent or fundamentally unfair corporate transaction,” unjust enrichment, failure to declare dividends, “aiding and abetting” breaches of fiduciary duty, and a constructive trust. By way of relief, Plaintiffs seek unspecified compensatory and punitive damages, as well as injunctive relief preventing the proxy statement from being disseminated to policyholders and prohibiting the proposed transaction from being consummated.

On November 14, 2016, defendants filed preliminary objections to plaintiffs' complaint, arguing that all matters in the complaint should be referred to the Pennsylvania Insurance Department under its primary jurisdiction, and the complaint dismissed. Defendants filed a supporting brief on November 18, 2016, plaintiffs filed an opposing brief on December 23, 2016, and defendants filed a reply brief on January 13, 2017.

Plaintiffs have also sought broad discovery from Saucon Mutual, and from certain of its financial advisors.

This litigation remains ongoing.

DESCRIPTION OF CONVERSION TRANSACTIONS

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

Conversion 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 an exhibit to the Plan 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 an exhibit to the Plan. 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."

Issuance and Sale of Shares of Saucon Holding to the Subscribers in the Saucon Holding Offering

Saucon Holding will issue and sell 3,250,000 shares to the subscribers who participate in the Saucon Holding Offering for a subscription price of one dollar per share, as described in this Member Information Statement under the heading "Description of Saucon Holding Offering." On the closing date of the Conversion Transactions, and subject to the conditions and limitations described under the heading "Description of Saucon Holding Offering," Saucon Holding will countersign the subscription agreements that had been signed and delivered by the subscribers in the First Stage Offering and the Second Stage Offering. The shares of Saucon Holding being issued in the Saucon Holding Offering will constitute all of the outstanding shares of Saucon Holding. As a result, the investors in the Saucon Holding Offering will hold all of the outstanding shares of Saucon Holding.

If Saucon Holding is unable to accept a subscription by a particular Eligible Member (such as by reason of the limitation on the number of non-accredited investors that is described below under the heading "Description of Saucon Holding Offering—First Stage Offering"), then that Eligible Member will instead receive the Member Compensation.

Purchase of Shares of Saucon Insurance Company

Saucon Insurance Company will issue and sell 1,000 shares to Saucon Holding 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.

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

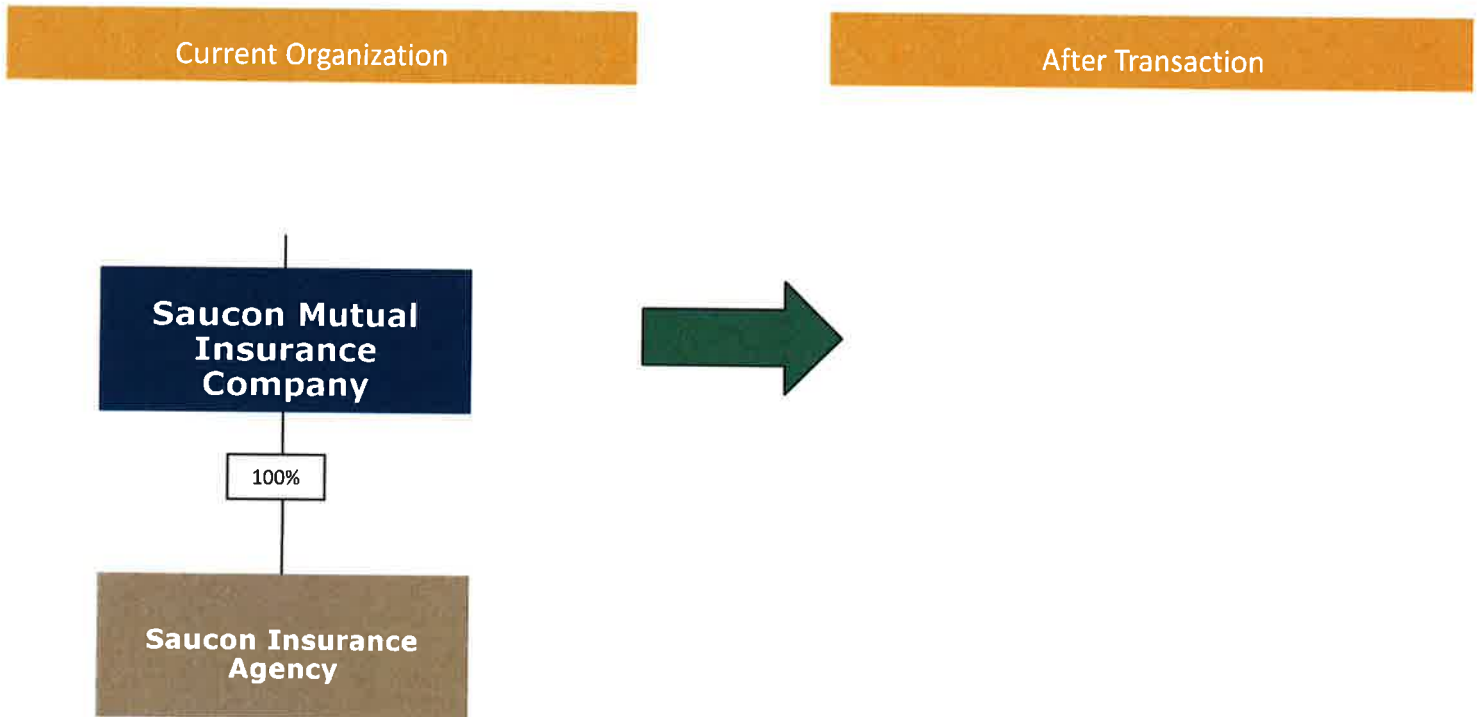
Charitable Contribution

Saucon Insurance Company will make a \$500,000 charitable contribution to the Lehigh Valley Community Foundation, to be held and applied as described in this Member Information Statement under the heading “Description of Charitable Contribution.” The Board of Directors believes that such a charitable contribution will benefit not only the community in general, but also people in the community who once were, but no longer are, policyholders of Saucon Mutual and, thus, will not receive direct compensation in the Conversion Transactions.

No Public Company

The Conversion Transactions will not result in Saucon Insurance Company (or its parent company, Saucon Holding) becoming a public company, and there are no plans to cause either of them to become a public company in the foreseeable future. The Board of Directors of Saucon Mutual does not believe that it would be appropriate to incur the transactional fees and expenses, or to require management to devote the requisite attention, in connection with going public or maintaining itself as a public company.

The following diagram illustrates the effect of the transactions:



Immediately following the closing of the Conversion Transactions, the following transactions will occur:

Entity Reorganization of the Agency

Saucon Insurance Company will make a distribution to Saucon Holding (its sole shareholder) of all of the shares of the Agency, with the result that the Agency will become a direct wholly-owned subsidiary

of Saucon Holding and will be a sister company (rather than a subsidiary) of Saucon Insurance Company. This distribution will occur immediately after the closing of the Conversion Transactions.

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

Payment of Consideration to Eligible Members

Saucon Insurance Company will pay to each of the Eligible Members who does not subscribe for shares of Saucon Holding their respective consideration as described in this Member Information Statement under the heading "Description of Member Compensation."

Distribution of Amended Insurance Policy Declarations

As soon as reasonably possible following the closing of the Conversion Transactions, Saucon Insurance Company will prepare and deliver to Eligible Members whose policies are still in force amended insurance policy declarations that will: (1) indicate the new name of the Company; (2) no longer include mutual policy conditions; and (3) for perpetual policyholders who receive a return of deposit as part of the consideration to Eligible Members, the revised amount of the remaining perpetual deposit.

DESCRIPTION OF MEMBER COMPENSATION

Saucon Mutual's in-force policies are either perpetual policies or non-perpetual policies. Perpetual policies are written to have no term, or expiration date, and continue until terminated. Saucon Mutual also issues policies that do have a set date when the policy expires, which are referred to as non-perpetual policies. The Member Compensation that a particular Eligible Member may receive will depend upon whether that Eligible Member holds a perpetual policy or a non-perpetual policy.

Eligible Members who subscribe for shares of Saucon Holding in the Saucon Holding Offering will not receive the Member Compensation described below. Each Eligible Member must elect to either receive Member Compensation, or subscribe for shares of Saucon Holding, but the Eligible Member may not do both.

The Member Compensation will consist of the following:

Member Compensation for Eligible Members Who Hold Perpetual Policies

Eligible Members who hold perpetual policies will receive the following Member Compensation, but in each case only if that Eligible Member does not subscribe for shares of Saucon Holding in the Saucon Holding Offering:

A. *Cash Payment.* A cash payment computed by multiplying (i) the actual number of calendar days that the perpetual policy had been in effect from its issuance until the closing date of the Conversion Transactions, by (ii) \$0.2787 per day, then rounding that amount to the nearest whole dollar. For example, an Eligible Member who is a perpetual policyholder whose policy had been in effect for ten years (i.e., 3652 days) would receive a cash payment of \$1,018; and an Eligible Member who is a perpetual policyholder whose policy had been in effect for ten years plus 120 days (i.e., 3772 days) would receive a cash payment of \$1,051. The aggregate amount of cash payments to all Eligible Members who are perpetual policyholders under this paragraph (assuming that none of the perpetual policyholders subscribe for shares of Saucon Holding in the Saucon Holding Offering) will be \$1,269,435, assuming a closing date of the Conversion Transactions of July 31, 2017; plus

B. *Return of Deposits.* A return of 15% of the Eligible Member's deposits held by Saucon Mutual, if any. The aggregate amount of deposits to be returned to Eligible Members who are perpetual policyholders under this paragraph will be approximately \$325,000 (assuming that none of the perpetual policyholders subscribe for shares of Saucon Holding in the Saucon Holding Offering), less any deposits that have already been or, before the closing of the Conversion Transactions will be, returned in accordance with policy terms; plus

C. *Removal of Charges for Increases in Policy Limits Under Inflation Adjustment Endorsements.* Many of the perpetual 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 and also require the perpetual policyholder to pay an additional annual deposit to Saucon Mutual because of that increase in the policy limit. After the Conversion Transactions, Saucon Insurance Company will

discontinue its practice of requiring holders of those perpetual policies who do not subscribe for shares of Saucon Holding in the Saucon Holding Offering 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 Transactions. Assuming that none of the perpetual policyholders subscribe for shares of Saucon Holding in the Saucon Holding Offering, the estimated aggregate value of the removal of charges for increases in policy limits under the inflation adjustment endorsements is approximately \$500,000.

Member Compensation for Eligible Members Who Hold Non-Perpetual Policies

Eligible Members who hold non-perpetual policies will receive the following Member Compensation, but in each case only if that Eligible Member does not subscribe for shares of Saucon Holding in the Saucon Holding Offering:

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

- An amount computed by multiplying (i) the actual number of calendar days that the non-perpetual policy had been in effect (including all renewals) from its issuance until the closing date of the Conversion Transactions, by (ii) \$0.2787 per day, then rounding that amount to the nearest whole dollar. For example, an Eligible Member who is a non-perpetual policyholder whose policy had been issued and then renewed from time to time for a total period of ten years (i.e., 3652 days) as of the closing date of the Conversion Transactions would receive a cash payment of \$1,018; and an Eligible Member who is a non-perpetual policyholder whose policy had been issued and then renewed from time to time for a period of ten years plus 120 days (i.e., 3772 days) as of the closing date of the Conversion Transactions would receive a cash payment of \$1,051. The aggregate amount of cash payments to all Eligible Members who are non-perpetual policyholders under this paragraph (assuming that none of the Eligible Members who are non-perpetual policyholders subscribe for shares of Saucon Holding in the Saucon Holding Offering) will be \$34,865, assuming a closing date of the Conversion Transactions of July 31, 2017; plus
- An additional one-time cash payment equal to 15% of the current premium of the non-perpetual policy. The aggregate amount of cash payments to be made to Eligible Members who are non-perpetual policyholders under this paragraph (assuming that none of the Eligible Members who are non-perpetual policyholders subscribe for shares of Saucon Holding in the Saucon Holding Offering) would be approximately \$1,700.

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 Member Compensation to Eligible Members as contemplated by the Plan. This discussion does not address how the federal income tax rules affect all of the possible types of 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 regarding the federal, state, local and any applicable foreign tax consequences of the Conversion Transactions in your particular circumstances.

Return of Deposits to Members Who Are Perpetual Policyholders. Part of the cash payment being made pursuant to the Plan to Eligible Members who are perpetual policyholders and who do not participate in the Saucon Holding Offering will be a return by Saucon Mutual of a portion of the Eligible Member's funds that are held on deposit. In general, a return of deposits to an Eligible Member should not be taxable.

Cash Payments. In general, cash that is paid pursuant to the Plan to an Eligible Member who does not participate in the Saucon Holding Offering (other than the partial return of deposits) is treated as payment for the Eligible 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 Member in question owned the policy for more than one year at the time the cash is paid to the Eligible 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 Eligible Members and withhold any applicable tax payments to the extent required by law.

Instructions Related to Form W-9

Eligible Members who receive the Member Compensation because they do not subscribe for shares of Saucon Holding in the Saucon Holding Offering will be required to complete, sign and return to Saucon Mutual the enclosed Form W-9. The following guidelines for determining the proper social security number or taxpayer ID number to put on the Form W-9 should be followed:

- If the Eligible Member's insurance policy specifies a single person as the named insured, then the social security number of that single person should be given on the Form W-9.
- If the Eligible Member's insurance policy specifies more than one person as the named insured, then the social security number or taxpayer ID number of the first named person should be given on the Form W-9.
- If the Eligible Member's insurance policy names a valid trust, estate or pension trust as the named insured, then the taxpayer ID of that legal entity should be given on the Form W-9.
- If the Eligible Member is a legal entity such as a corporation, a tax-exempt organization, a partnership or an LLC, then the taxpayer ID of that legal entity should be given on the Form W-9.

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

Saucon Mutual does not intend to issue any policies after the date that the Plan was adopted by its Board of Directors and before the closing of the Conversion Transactions.

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 Conversion Transactions, policyholders of Saucon Insurance Company will no longer be members of the Company and will therefore no longer enjoy these or other rights afforded to members of mutual insurance companies. This section summarizes the material changes in rights that the policyholders of Saucon Mutual will experience upon the closing of the Conversion 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 conversion, a merger, a liquidation of the company or a sale of all or substantially all assets. Once the company converts to a stock corporation, those voting rights are enjoyed by the company's shareholders 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 converts to a stock corporation, dividends may be payable to shareholders and/or policyholders if and as declared by the board of directors, and subject to restrictions as provided by law.

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 Conversion Transactions close, with the exception of the distribution of the shares of the Agency to Saucon Holding, as described under the heading "Description of Conversion Transactions."

Excess of liquidation proceeds over liabilities.

Pennsylvania law provides that upon the dissolution of a mutual fire insurance company such as Saucon Mutual, after discharging or making adequate provision for the company's liabilities for the payment of claims and return of unearned premium, all remaining assets are escheated to the Commonwealth of Pennsylvania. This contrasts with the right of shareholders 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 fire insurance company incorporated in Pennsylvania do not have the right to share in the liquidation proceeds, Saucon Mutual does not believe that the Conversion Transactions will affect the rights of its policyholders with respect to a liquidation of the company.

DESCRIPTION OF CHANGES IN GOVERNANCE

Upon the closing of the Conversion 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 (current)	Saucon Insurance Company (after closing)
Authorization of Stock	None.	1,000 shares of stock authorized, all of which will be purchased by and issued to Saucon Holding.
Election of Directors	Election by members of Saucon Mutual (1 vote per member)	Election by Saucon Holding, which will be the company's sole shareholder
Initial Makeup of Board of Directors	Brian T. Regan (Chairman) Susan C. Drabic (Vice Chairman) Phillip J. Bell Michael Crofton Martin C. Gilchrist Donna Jean Goss Richard E. Santee, Jr. Bernard J. Story	No change. The incumbent board members at the time of the closing of the Conversion Transactions 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 of directors of Saucon Holding Company.
Initial Officers	Stephen Bajan (CEO) Brian T. Regan (President) Phillip J. Bell (Secretary) Martin C. Gilchrist (Treasurer)	No change. The incumbent officers at the time of the closing of the Conversion Transactions 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.
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 will be the Company's sole shareholder. The shareholders of Saucon Holding (who will be the investors who acquired shares in the Saucon Holding Offering) will elect the directors of Saucon Holding, having one vote per share. The bylaws of Saucon Holding 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 Conversion Transactions, Saucon Insurance Company will make a \$500,000 contribution to the Lehigh Valley Community Foundation, which is to be used to establish the "Saucon Insurance Company Foundation Fund." The Board of Directors believes that such charitable contribution will benefit not only the community in general, but also people in the community who once were, but no longer are, policyholders of Saucon Mutual and, thus, will not receive direct compensation in the Conversion Transactions.

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 members are located. Its website is <http://www.lehighvalleyfoundation.org/>. Saucon Mutual determined that the contributions to the Lehigh Valley Community Foundation would be more cost-effective and straightforward than establishing a separate, new foundation.

The Lehigh Valley Community Foundation will make disbursements from the Saucon Insurance Company Foundation Fund from time to time for charitable purposes in accordance with recommendations made by the contribution committee of Saucon 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 Saucon Insurance Company's contribution to the foundation.

DESCRIPTION OF SAUCON HOLDING OFFERING

Saucon Holding Offering

As part of the Conversion Transactions, Saucon Holding will conduct the Saucon Holding Offering, as described in the Plan under the heading “Saucon Holding Offering.” The investors who subscribe for shares of Saucon Holding in the Saucon Holding Offering will become all of the shareholders of Saucon Holding.

The aggregate subscription price for all of the 3,250,000 shares of Saucon Holding, which are being offered in the Saucon Holding Offering for a subscription price of one dollar per share, is \$3,250,000. That aggregate subscription price is larger than the higher end of StoneRidge’s valuation range for Saucon Mutual. This means that subscribers for the shares of Saucon Holding would be paying an amount for those shares in the aggregate that exceeds the higher end of StoneRidge’s valuation range for Saucon Mutual.

An investment in Saucon Holding’s shares in the Saucon Holding Offering is subject to significant risks, including the risks set forth below under the heading “Risk Factors Relevant to the Saucon Holding Offering,” and may be suitable only for persons with the financial capacity for making and holding long-term investments that are not readily reducible to cash. Prospective subscribers for the shares must, therefore, have adequate means of providing for their current needs and personal contingencies. Any person who cannot bear the risk of loss of their entire investment in the Saucon Holding shares should not subscribe for the shares.

Description of Saucon Holding

Saucon Holding was formed for the purpose of the transactions contemplated by the Plan. It has not issued any shares and it has not engaged in any business activities. Upon the closing of the Conversion Transactions, Saucon Holding will purchase the shares of Saucon Insurance Company, thereby becoming its sole shareholder and parent company. Immediately after the closing, by virtue of the entity reorganization described under the heading “Description of Conversion Transactions—Entity Reorganization of the Agency,” Saucon Holding will also become the sole shareholder and parent company of the Agency. The articles of incorporation and proposed bylaws of Saucon Holding are attached as exhibits to the Plan.

Subscription Rights

The proposed conversion of Saucon Mutual into a stock insurance company is not a “subscription rights conversion.” This means that members of Saucon Mutual, in their capacity as such, are not being offered the right to subscribe for shares of Saucon Insurance Company (the stock insurance company into which Saucon Mutual will convert).

However, Eligible Members and members of the Control Group are being offered the right to subscribe for shares of Saucon Holding in the Saucon Holding Offering. The Saucon Holding Offering would be made available:

1. first, to the Non-Control Group Eligible Members (this stage of the Saucon Holding Offering is referred to as the “First Stage Offering”); and
2. second, any remaining shares of Saucon Holding that are not subscribed for in the First Stage Offering would be made available for subscription by the members of the Control Group (this stage of the Saucon Holding Offering is referred to as the “Second Stage Offering”).

In order for Saucon Holding to conduct the Saucon Holding Offering, the offering must either be registered under federal and state securities laws, or an exemption from registration must be available. The Board of Directors of Saucon Mutual determined that taking into consideration Saucon Mutual’s policyholder base, the amount of capital to be raised through the sale of shares of Saucon Holding, and the costs, expenses and time commitment that a registered public offering of the shares of Saucon Holding would require, that a registration of the Saucon Holding Offering would not be practicable. Therefore, the Saucon Holding Offering is being conducted in the manner described in the Plan and in this Member Information Statement so as to qualify for an exemption from registration under federal and state securities laws.

First Stage Offering

The First Stage Offering will be an offering by Saucon Holding, to Non-Control Group Eligible Members only, to issue and sell up to 3,250,000 shares of Saucon Holding at a purchase price of one dollar per share. If any Non-Control Group Eligible Member timely fulfills the requirements to subscribe for shares of Saucon Holding in the First Stage Offering, those shares will be issued on the closing date of the Conversion Transactions.

To subscribe for shares of Saucon Holding in the First Stage Offering rather than receiving Member Compensation, follow the instructions that are described under the heading “Instructions for Participation in the Saucon Holding Offering”

Any Non-Control Group Eligible Member who does not complete, execute and return a First Stage Offering Subscription Agreement and tender the subscription price by the relevant deadline will be presumed to have elected not to subscribe for shares of Saucon Holding in the First Stage Offering but will receive Member Compensation.

The aggregate maximum subscription price for all of the shares of Saucon Holding being offered in the First Stage Offering is \$3,250,000, which is larger than the higher end of StoneRidge’s valuation range for Saucon Mutual.

The First Stage Offering will be subject to all of the following additional conditions and limitations:

Participants in the First Stage Offering Will Not Receive Any Member Compensation. Non-Control Group Eligible Members who subscribe for shares of Saucon Holding in the First Stage Offering will not receive the Member Compensation. The Member Compensation is discussed above under the heading “Description of Member Compensation.” Non-Control Group Eligible Members must elect to either receive Member Compensation, or subscribe for shares, but they may not do both.

First Stage Offering Limited to Non-Control Group Eligible Members. The First Stage Offering will be limited to Eligible Members who are not members of the Control Group. Members of the Control Group may not participate in the First Stage Offering even if they are Eligible Members.

Subscription Rights are Non-Transferable; Identity of the Non-Control Group Eligible Member Must Match the Name or Names of the Named Insured on a Saucon Mutual Policy. The right to participate in the First Stage Offering is not transferable. A Non-Control Group Eligible Member may only subscribe for shares of Saucon Holding in the First Stage Offering in his, her and/or its own name (the name or names specified as the named insured for that Non-Control Group Eligible Member's respective policy or policies). In a case where the Eligible Member consists of more than one natural person or entity, see the "Questions and Answers Relating to the Special Meeting and the Plan—Who is an Eligible Member?" for further illustration. Saucon Holding will not accept any purported subscription in the First Stage Offering from any prospective subscriber who is not a Non-Control Group Eligible Member.

Minimum Subscription. The minimum subscription by a particular Non-Control Group Eligible Member will be for 500 shares (i.e., the minimum aggregate subscription price to be paid by a particular subscriber who is a Non-Control Group Eligible Member will be \$500.00). Saucon Holding will not be required to accept a subscription for a lesser number of shares.

Limited Exercise Period. Participation in the First Stage Offering will be limited to Non-Control Group Eligible Members who complete and sign the First Stage Offering Subscription Documents and return them to Saucon Mutual, in accordance with the instructions set forth under the heading "Instructions for Participation in the Saucon Holding Offering," on or before the First Stage Offering Deadline.

Subject to the Other Limits, a Non-Control Group Eligible Member May Subscribe for as Few as 500 or as Many as All of the Shares of Saucon Holding in the First Stage Offering. Subject to the limits set forth in this Member Information Statement (such as the minimum subscription limit, limitations on the number of non-"accredited investors" who may subscribe for shares of Saucon Holding, cutbacks, and the requirement that acquisitions of shares of Saucon Holding be approved by the Pennsylvania Insurance Department in certain circumstances), a Non-Control Group Eligible Member who elects to participate in the First Stage Offering may acquire as few as 500 shares or as many as all of the available shares of Saucon Holding.

Limitation on Number of Non-Accredited Investors. Saucon Holding will not be required to accept subscriptions from more than 35 Non-Control Group Eligible Members who do not credibly indicate, in their response to the questionnaire that is included in the First Stage Offering Subscription Documents, that they are "accredited investors" as that term is defined in Rule 501(a) promulgated by the United States Securities and Exchange Commission under the Securities Act of 1933, 17 CFR §230.501(a). The purpose of this limitation is to enable the Saucon Holding Offering to qualify for an exemption from registration under the federal and Pennsylvania securities laws. If more than 35 Non-Control Group Eligible Members who are not "accredited investors" timely deliver executed First Stage Offering Subscription Documents to Saucon Mutual, Saucon Holding will accept the First Stage Offering Subscription Documents from the 35 of such Non-Control Group Eligible Members whose First Stage Offering Subscription Documents indicate their willingness to subscribe for the largest amounts. Note that the limitation in this paragraph does not apply to Non-Control Group Eligible Members who are "accredited investors"; Saucon Holding may accept subscriptions from any number of Non-Control Group Eligible Members who are "accredited investors" regardless of the number of subscriptions

received from Non-Control Group Eligible Members who are not “accredited investors.” Any Non-Control Group Eligible Member who is not an “accredited investor” and whose subscription for shares of Saucon Holding is not accepted by reason of the limitation in this paragraph will instead receive the Member Compensation.

Cutbacks. In order to assure that no more than 3,250,000 shares of Saucon Holding are subscribed for in the Saucon Holding Offering, cutbacks may be applied. The aggregate number of shares of Saucon Holding that will be offered in the Saucon Holding Offering is 3,250,000 shares. Each Non-Control Group Eligible Member may subscribe for as few as 500 such shares (per the limitation described above under the heading “Minimum Subscription”), or as many as all 3,250,000 of such shares. If Non-Control Group Eligible Members subscribe for more than 3,250,000 shares in the aggregate, then each Non-Control Group Eligible Member’s subscription will be subject to cutback as follows: each such Non-Control Group Eligible Member’s subscription will be regarded as a subscription for a number of shares of Saucon Holding equal to 3,250,000 shares multiplied by a fraction, the numerator of which is the number of shares that the Non-Control Group Eligible Member indicated as the subscription amount in the First Stage Offering Subscription Documents, and the denominator of which is the aggregate number of shares that all such Non-Control Group Eligible Members indicated as their subscription amounts in their respective First Stage Offering Subscription Documents, rounded to the nearest whole number of shares.

By way of illustration, assume that only three Non-Control Group Eligible Members subscribe for shares of Saucon Holding, but those Non-Control Group Eligible Members return subscription agreements indicating subscriptions as follows: Member A: 50,000 shares; Member B: 3,250,000 shares; Member C: 1,000,000 shares. Applying the formula above, the subscriptions would be deemed revised as follows: Member A: 37,791 shares (or 1.16% of the total); Member B: 2,456,395 shares (or 75.58% of the total); Member C: 755,814 shares (or 23.26% of the total) for a total of 3,250,00 shares subscribed for in the aggregate by Member A, Member B, and Member C.

Shareholder Agreement of Saucon Holding. Any Non-Control Group Eligible Member who, as a result of the Saucon Holding Offering, subscribes for five percent or more of the outstanding shares of Saucon Holding will, as a condition to such subscription, be required to join and become a party to the Saucon Holding Shareholder Agreement. For this reason: (i) any Non-Control Group Eligible Member who subscribes for at least 162,500 shares of Saucon Holding in the First Stage Offering (i.e., five percent of the 3,250,000 shares of Saucon Holding that will be available for subscription in the aggregate in the Saucon Holding Offering) will be required, as a condition precedent to the subscription, to execute and deliver to Saucon Mutual a joinder to the Saucon Holding Shareholder Agreement, together with that subscriber’s respective First Stage Offering Subscription Agreement and accompanying questionnaire, on or before the First Stage Offering Deadline; and (ii) any Non-Control Group Eligible Member who subscribes for fewer than 162,500 shares of Saucon Holding in the First Stage Offering but whose subscription, upon the conclusion of the Saucon Holding Offering, ends up constituting a subscription for five percent or more of the aggregate number of shares of Saucon Holding that will be outstanding upon the closing date of the Conversion Transactions will be required, as a condition precedent to the subscription, to execute and deliver to Saucon Mutual a joinder to the Saucon Holding Shareholder Agreement by such deadline prior to the closing date of the Conversion Transactions as Saucon Mutual designates (and if any such Non-Control Group Eligible Member who is described in this clause (ii) refuses to timely execute and deliver such a joinder then Saucon Holding may reject that subscription).

Requirement to Tender Subscription Price; Subscription is Legally Binding Commitment. In order to subscribe for shares of Saucon Holding in the First Stage Offering, the Non-Control Group Eligible Member must timely tender his, her and/or its entire subscription price together with the return of the fully-executed First Stage Offering Subscription Agreement and other First Stage Offering Subscription Documents, before the First Stage Offering Deadline. To the extent that all or a portion of a Non-Control Group Eligible Member's subscription amount cannot be accepted (such as by reason of the abandonment of the Saucon Holding Offering or by reason of the cutbacks described above under the heading "Cutbacks"), then the excess portion of such tendered funds will be promptly returned. The remaining tendered funds will be held in an interest-bearing escrow account pending the closing date of the Conversion Transactions, whereupon the subscription amount that has not already been returned will be applied to satisfy that Non-Control Group Eligible Member's subscription obligation, and any accrued interest on the funds held in the escrow account will be returned to the subscribers. Although Saucon Holding will not countersign the Subscription Agreements until the closing date of the Conversion Transactions, the execution and delivery of a First Stage Offering Subscription Agreement will be relied upon by Saucon Holding, Saucon Mutual and the other prospective participants in the Saucon Holding Offering. Consequently, a Non-Control Group Eligible Member's execution of the First Stage Offering Subscription Agreement and the other First Stage Offering Subscription Documents will be a legally binding commitment on the part of that Non-Control Group Eligible Member, which that Non-Control Group Eligible Member may not unilaterally cancel or withdraw, and which Saucon Holding may enforce.

Acquisition of Five Percent or More of the Outstanding Shares of Saucon Holding Will be Conditioned on Approval by the Pennsylvania Insurance Department. Any proposed subscription by a Non-Control Group Eligible Member for five percent or more of the shares of Saucon Holding is conditioned upon the Pennsylvania Insurance Department's approval of that subscription. If, within 30 days of the date of Saucon Mutual's receipt of such a subscriber's First Stage Offering Subscription Documents, Saucon Mutual does not receive from such a subscriber written evidence of such subscriber's good faith effort to obtain the Department's approval of that subscription, that subscription will be deemed to have been cancelled and of no further force or effect, in which case that Eligible Member will receive Member Compensation.

Acquisition of Ten Percent or More of the Outstanding Shares of Saucon Holding Will be Conditioned on Approval by the Pennsylvania Insurance Department. The "Form A" that is being filed with the Pennsylvania Insurance Department in connection with the proposed Conversion Transactions identifies those persons whom Saucon Mutual presently believes would become holders of ten percent or more of the outstanding shares of Saucon Holding upon the closing of the Conversion Transactions. If any Non-Control Group Eligible Member subscribes for ten percent or more of the shares of Saucon Holding in the First Stage Offering, then that Non-Control Group Eligible Member must separately file a Form A with the Pennsylvania Insurance Department, and the Conversion Transactions and the Saucon Holding Offering would not proceed until such Form A has been approved by the Pennsylvania Insurance Department in accordance with Section 1402 of the Insurance Company Act of 1921, as amended. Any Non-Control Group Eligible Member subscribing for ten percent or more of the shares of Saucon Holding in the First Stage Offering will be subject to such informational, notice, periodic filing and other requirements as are applicable to a holder of ten percent or more of the voting capital stock of an insurance holding company pursuant to the Pennsylvania insurance laws. If, within 30 days of the date of Saucon Mutual's receipt of such a subscriber's First Stage Offering Subscription Documents, Saucon Mutual does not receive from that subscriber written evidence of the subscriber's good faith effort to file

a "Form A" with the Pennsylvania Insurance Department with respect to the proposed subscription, that subscription will be deemed to have been cancelled and of no further force or effect, in which case that Eligible Member will receive Member Compensation.

Abandonment of Conversion Transactions and Saucon Holding Offering Upon First Stage Offering Resulting in Subscriptions for More than 51%, but Less than All, of the Available Shares of Saucon Holding. As described more fully in the description of the Second Stage Offering below, shares of Saucon Holding that are not subscribed for in the First Stage Offering will be available to be subscribed for by members of the Control Group in the Second Stage Offering. The members of the Control Group have, in the aggregate, entered into non-binding expressions of interest in subscribing in the Second Stage Offering for all of the shares of Saucon Holding that are not subscribed for in the First Stage Offering, but only so long as the members of the Control Group would thereby subscribe, in the aggregate, for at least 51% of the total number of shares of Saucon Holding.

However, if the First Stage Offering results in Non-Control Group Eligible Members subscribing for 1,657,500 or more shares (i.e., 51% of 3,250,000 shares) of Saucon Holding but fewer than 3,250,000 shares of Saucon Holding, then the Board of Directors of Saucon Mutual may abandon the Conversion Transactions and the Saucon Holding Offering, in which case Saucon Mutual will not proceed with the Conversion Transactions and Saucon Holding will not proceed with the Saucon Holding Offering. In that case, none of the Eligible Members will receive Member Compensation, and any tendered subscription funds will be returned.

Second Stage Offering

If the First Stage Offering results in subscriptions by Non-Control Group Eligible Members for 49% or fewer of the shares of Saucon Holding, the Second Stage Offering will be conducted. The Second Stage Offering will be an offering by Saucon Holding to issue and sell to members of the Control Group any of the 3,250,000 shares of Saucon Holding that remain available after the end of the exercise period for the First Stage Offering, at a purchase price of one dollar per share. Any shares of Saucon Holding that are subscribed for in the Second Stage Offering will be issued on the closing date of the Conversion Transactions. The Second Stage Offering will be subject to all of the following additional conditions:

Participants in the Second Stage Offering Will Not Receive Member Compensation. Members of the Control Group who subscribe for shares of Saucon Holding in the Second Stage Offering will not receive the Member Compensation, even if they are Eligible Members. Members of the Control Group who are Eligible Members must elect to either receive the Member Compensation, or subscribe for shares, but they may not do both.

Second Stage Offering Limited to Members of the Control Group. The Second Stage Offering will be limited to members of the Control Group. The Control Group consists of the eight members of the Board of Directors and a ninth individual who is a member of management of Saucon Mutual. Those individuals have given to Saucon Mutual non-binding expressions of their interest in subscribing for all of the Saucon Holding shares that remain available after the First Stage Offering, subject to the limitations described below.

Among those nine investors, two have indicated an interest in acquiring more than ten percent of the Saucon Holding shares. Accordingly, those investors are included in the Form A that is being filed with

the Pennsylvania Insurance Department concurrently with the Plan. Assuming that no shares are subscribed for in the First Stage Offering, Saucon Mutual expects that those two investors will acquire, in the aggregate, approximately 92.95% of the Saucon Holding shares that will be offered, and the other seven investors will in the aggregate acquire the remaining Saucon Holding shares that will be offered, subject to the limitations described below. If for any reason any of the seven smaller Control Group investors fails to subscribe in the Second Stage Offering for the number of Saucon Holding shares that they had indicated an interest in subscribing for, it is expected that those shares will be re-allocated among the other members of the Control Group (each of the largest two investors has indicated a readiness to purchase additional Saucon Holding shares if they became available in the Second Stage Offering, but only so long as the members of the Control Group will, in the aggregate, hold at least 51% of the outstanding shares of Saucon Holding upon the closing of the Conversion Transactions).

Subscription Rights are Non-Transferable. The right to participate in the Second Stage Offering is not transferable. A person who is not a member of the Control Group may not subscribe for shares of Saucon Holding in the Second Stage Offering.

Process for Participating in Second Stage Offering. Members of the Control Group who participate in the Second Stage Offering will be required to complete and sign their Second Stage Subscription Documents (including the subscription agreement for the Second Stage Offering in the form attached as an exhibit to the Plan and a joinder to the Saucon Holding Shareholder Agreement), and to tender their subscription price, on or prior to the closing date of the Conversion Transactions. All of the members of the Control Group who subscribe for shares of Saucon Holding in the Second Stage Offering will be required to join and become parties to the Saucon Holding Shareholder Agreement, regardless of their subscription amounts. A Control Group member's execution of the Second Stage Offering subscription agreement and the other Second Stage Subscription Documents will be a legally binding commitment on the part of that Control Group member, which that Control Group member may not unilaterally cancel or withdraw, and which Saucon Holding may enforce.

Minimum Subscription. The minimum subscription by a member of the Control Group will be for 500 shares (i.e., a minimum aggregate subscription price to be paid by a particular member of the Control Group will be \$500.00). Saucon Holding will not be required to accept a subscription for a lesser amount.

Description of Methodology for Determining Offering Price for the Saucon Holding Offering

The offering price of one dollar per share for the shares of Saucon Holding that are being offered in the Saucon Holding Offering was determined by the Board of Directors. In making that determination, the primary consideration was that the Saucon Holding Offering raise sufficient proceeds to satisfy the items that are described below under the heading "Use of Proceeds of Saucon Holding Offering." The offering price of one dollar per share was not determined based on any valuation analysis of Saucon Holding or of Saucon Mutual, and may not reflect the actual value of the shares of Saucon Holding (which could be greater than or less than one dollar per share).

Description of Saucon Holding Shareholder Agreement

In connection with the Saucon Holding Offering, all members of the Control Group who subscribe for shares of Saucon Holding, and all other Eligible Members who subscribe for five percent or more of the

shares of Saucon Holding, will be required to join and become parties to the Saucon Holding Shareholder Agreement, the form of which is attached to this Member Information Statement as Exhibit 5. For this reason: (i) any Non-Control Group Eligible Member who subscribes for at least 162,500 shares of Saucon Holding in the First Stage Offering (i.e., five percent of the 3,250,000 shares of Saucon Holding that will be available for subscription in the aggregate in the Saucon Holding Offering) will be required to execute and deliver to Saucon Mutual a joinder to the Saucon Holding Shareholder Agreement, together with that subscriber's respective First Stage Offering Subscription Agreement and accompanying questionnaire, on or before the First Stage Offering Deadline; and (ii) any Non-Control Group Eligible Member who subscribes for fewer than 162,500 shares of Saucon Holding in the First Stage Offering but whose subscription, upon the conclusion of the Saucon Holding Offering, ends up constituting a subscription for five percent or more of the aggregate number of shares of Saucon Holding that will be outstanding will be required to execute and deliver to Saucon Mutual a joinder to the Saucon Holding Shareholder Agreement prior to such deadline before the closing date of the Conversion Transactions as Saucon Mutual designates (and if any such Non-Control Group Eligible Member who is described in this clause (ii) refuses to timely execute and deliver such a joinder then Saucon Holding may reject that subscription).

The following description of the Saucon Holding Shareholder Agreement is qualified in its entirety by reference to the form of that agreement which is attached to this Member Information Statement as Exhibit 5. Prospective subscribers for shares of Saucon Holding should read it and become familiar with it, because from and after the closing of the Conversion Transactions, it is expected that that agreement will cover the majority, and perhaps all, of the outstanding shares of Saucon Holding and it will therefore affect the value of an investment in the shares of Saucon Holding, whether or not a particular shareholder is a party to that agreement. Note that the bylaws of Saucon Holding will include a requirement that any person or group who after the closing of the Conversion Transactions becomes a holder of five percent or more of the shares of Saucon Holding must also join and become a party to the Saucon Holding Shareholder Agreement as a condition to being recognized as the holder of those shares.

The Saucon Holding Shareholder Agreement will impose certain covenants and obligations, and afford certain rights, to the shareholders of Saucon Holding who are parties to it (those shareholders are referred to below as "Shareholder Agreement Parties"). These covenants and rights are summarized below.

Pre-Emptive Rights. If Saucon Holding proposes to issue new shares, it must first afford to the Shareholder Agreement Parties a right of first refusal to purchase those shares in order to maintain their respective proportionate ownership interests.

Buy-Sell. If a Shareholder Agreement Party who is or becomes a director or an officer of Saucon Holding subsequently loses that status, Saucon Holding will have the right (but not the obligation) to repurchase that Shareholder Agreement Party's shares. In addition, upon the death of a Shareholder Agreement Party, that Shareholder Agreement Party's personal representative will have the right within a limited period of time following the death, but not the obligation, to require Saucon Holding to repurchase the shares. In either case, such a purchase or sale will be at the price and on the terms specified in the Saucon Holding Shareholder Agreement.

Restrictions on Transfer of Shares. The Saucon Holding Shareholder Agreement imposes certain restrictions on the sale, transfer, assignment, pledge, encumbrance or other disposition of shares of Saucon Holding. In general, these restrictions provide that a Shareholder Agreement Party may not transfer any shares unless either (i) the Board of Directors of Saucon Holding approves the transfer, or (ii) the transferring shareholder first gives Saucon Holding and the other Shareholder Agreement Parties a right of first refusal to purchase the shares. However, the agreement permits a Shareholder Agreement Party to make certain transfers of shares to family members and certain other affiliates.

Covenants. Shareholder Agreement Parties must covenant to hold in confidence the confidential information of Saucon Holding, and must covenant to make such filings and take such actions as are required to comply with Pennsylvania insurance laws and the requirements of the Pennsylvania Insurance Department.

Use of Proceeds of Saucon Holding Offering

Saucon Holding intends to use the proceeds of the Saucon Holding Offering as follows:

Use	\$
Reimbursement of \$400,000 of the costs and expenses of the Conversion Transactions. Those costs and expenses include the fees and expenses of counsel, the fees and expenses of tax, accounting and financial advisors, filing fees with the Pennsylvania Insurance Department, the expenses of the Pennsylvania Insurance Department's engagement of StoneRidge, and printing, filing and mailing expenses. The costs and expenses of the Conversion Transactions that will not be reimbursed by Saucon Holding from this amount will be borne by Saucon Insurance Company.	\$400,000
Purchase of 1,000 shares of Saucon Insurance Company	\$1,425,000
Cash to be held by Saucon Holding	\$1,425,000

RISK FACTORS RELEVANT TO THE SAUCON HOLDING OFFERING

An investment in Saucon Holding's shares in the Saucon Holding Offering is subject to significant risks and may be suitable only for persons with the financial capacity for making and holding long-term investments that are not readily reducible to cash. Prospective subscribers for the shares must, therefore, have adequate means of providing for their current needs and personal contingencies. Any person who cannot bear the risk of loss of their entire investment in the Saucon Holding shares should not subscribe for the shares. Some of the more significant risks are described below, and a prospective subscriber for the Saucon Holding shares should carefully evaluate these risk factors and the other information set forth in this Member Information Statement, including the Plan and the other exhibits. Prospective subscribers should consider, however, that additional factors other than those set forth below may also affect the risks of investing in Saucon Holding's shares in a manner and to a degree that cannot be foreseen at this time. The order in which the following risks are presented is not intended to represent the magnitude of the risks described.

Risks Relating to the Shares of Saucon Holding

The offering price of one dollar per share in the Saucon Holding Offering was not based on StoneRidge's valuation analysis. There can be no assurance that the one dollar subscription price per share at which the shares of Saucon Holding are being offered accurately represents the value of those shares. The aggregate subscription price for all of the shares of Saucon Holding of \$3,250,000 is more than the high end of StoneRidge's valuation range for Saucon Mutual.

StoneRidge, an investment banking firm that specializes in the insurance industry, was engaged by the Pennsylvania Insurance Department to conduct an independent valuation analysis of Saucon Mutual. As part of its review, Stoneridge stated that it reviewed extensive information and performed other due diligence. StoneRidge based its valuation on two valuation methodologies: the sum of the parts analysis and the discounted cash flow analysis. Based upon the average of these two valuation methodologies, StoneRidge selected a valuation range for Saucon Mutual of between \$2.4 million and \$3.2 million. A copy of StoneRidge's valuation is attached as Exhibit 6 to this Member Information Statement.

StoneRidge's independent valuation analysis of Saucon Mutual indicates a valuation range between \$2.4 million and \$3.2 million. However, that valuation analysis was conducted after the Plan of Conversion was first filed with the Pennsylvania Insurance Department, and is concerned with the valuation of Saucon Mutual, rather than of Saucon Holding. For this reason, that valuation analysis did not take certain factors into account, such as the expenses of carrying out the Conversion Transactions or the expected re-entry of the Company into the business of underwriting insurance after the closing of the Conversion Transactions.

The price per share at which the shares of Saucon Holding are being offered in the Saucon Holding Offering was not based upon the StoneRidge valuation analysis or upon any valuation. The one dollar subscription price per share at which the shares of Saucon Holding are being offered was determined in the manner described in this Member Information Statement under the heading "Description of Saucon Holding Offering." That determination was based on the Company's estimate of its funding requirements, rather than on perceived market value, book value or other generally established criteria. Consequently, there can be no assurance that the one dollar subscription price per share at which the shares of Saucon Holding are being offered accurately represents the value of those shares. The actual

value per share of those shares could be greater than or less than the subscription price at which they are being offered, and there can be no assurance that the shares of Saucon Holding will ever obtain a value equal to or greater than the subscription price.

The aggregate subscription price for all of the 3,250,000 shares of Saucon Holding, which are being offered in the Saucon Holding Offering for a subscription price of one dollar per share, is \$3,250,000. That aggregate subscription price is larger than the higher end of StoneRidge's valuation range for Saucon Mutual. This means that subscribers for the shares of Saucon Holding would be paying an amount for those shares in the aggregate that exceeds the higher end of StoneRidge's valuation range for Saucon Mutual.

Prospective subscribers for shares of Saucon Holding should consider StoneRidge's valuation analysis in determining whether to subscribe.

An investor in the shares of Saucon Holding may not be able to sell the shares.

There is no public market for the shares of Saucon Holding, and no market is expected to develop for the shares in the future. The shares are not being registered under the federal or state securities laws, in reliance on exemptions granted from such registration requirements. The shares may not be resold or otherwise transferred unless the shares are later registered under the securities laws or unless an exemption from such registration requirements is available at the time of the sale. The Company does not intend to register the securities.

In addition, anyone who becomes a holder of five percent or more of the shares of Saucon Holding will be required to join and be a party to the Saucon Holding Shareholder Agreement. The Saucon Holding Shareholder Agreement restricts the transfer of shares of Saucon Holding. Consequently, a shareholder who is a party to the Saucon Holding Shareholder Agreement may not be able to sell those shares. As a result, a shareholder could suffer an economic loss by not being able to sell all or a portion of his, her and/or its investment during times when the value of the investment has increased and conversely during times when the value of the investment is decreasing or if the shareholder needs funds that a sale of the investment would generate.

Moreover, the fact that the Saucon Holding Shareholder Agreement is expected to cover a majority of the shares of Saucon Holding may make it more difficult for a shareholder of Saucon Holding – even one who is not a party to the Saucon Holding Shareholder Agreement – to find a willing purchaser for shares.

Accordingly, a prospective subscriber for the shares of Saucon Holding should be prepared to bear the economic risk of an investment in the shares for an indefinite period. In addition, a prospective subscriber should be able to withstand the total loss of the investment. Thus, the shares are suitable only for purchase as a long-term investment, and the subscribers should be prepared to bear the economic risk of their investment for an indefinite period of time. Any stock certificates to be issued by Saucon Holding representing ownership of the shares will bear a legend stating that the shares represented thereby have not been registered under the federal or state securities laws.

An investment in the shares of Saucon Holding may not result in any investment returns in the near term, or at all.

An investment in the shares of Saucon Holding may not result in any investment returns. Saucon Holding's primary assets will consist of its ownership of Saucon Insurance Company. Consequently, substantially all of Saucon Holding's revenues will consist of such dividends, if any, that Saucon Insurance Company pays to Saucon Holding as its sole shareholder, and Saucon Holding's ability to pay shareholder dividends will depend upon the ability of Saucon Insurance Company to pay dividends to Saucon Holding. It is not expected that Saucon Insurance Company will pay dividends to Saucon Holding in the near term for the following reasons:

- Saucon Insurance Company will be required by law to maintain certain levels of capital and surplus;
- Saucon Insurance Company intends to re-enter the business of actively underwriting property and casualty insurance, and therefore must build up appropriate levels of working capital to support those activities; and
- Dividends paid by Saucon Insurance Company may need to be approved by the Pennsylvania Insurance Department.

For these reasons, it is highly unlikely that Saucon Holding will pay dividends to its shareholders in the near term. As a result, a prospective subscriber for shares of Saucon Holding must keep in mind the fact that Saucon Holding is not likely to provide any regular or immediate investment returns.

If an Eligible Member does not act promptly and follow the subscription instructions, the subscription may be rejected.

In order to subscribe for shares of Saucon Holding in the Saucon Holding Offering, an Eligible Member must follow the instructions set forth below under the heading "Instructions for Participation in the Saucon Holding Offering." Those instructions describe the documents that a prospective subscriber must complete, execute and return to the Company, the way in which the subscription price must be tendered, and the deadline for doing so. If an Eligible Member does not follow the subscription instructions, Saucon Holding may reject a subscription from that Eligible Member.

Risks Relating to the Conversion Transactions

An Eligible Member who subscribes for shares of Saucon Holding will not receive Member Compensation as a result of the Conversion Transactions.

The Conversion Transactions have been structured to afford to each Eligible Member a choice: either to receive a share of the Member Compensation described under the heading "Description of Member Compensation," or to subscribe for shares of Saucon Holding in the Saucon Holding Offering, but not both. Therefore, by electing to participate in the Saucon Holding Offering, an Eligible Member would be foregoing its Member Compensation.

The members of the Board of Directors of Saucon Mutual are subject to a conflict of interest with respect to the Saucon Holding Offering.

The members of the Board of Directors, who approved the Plan, have a conflict of interest because the Control Group, which largely consists of the members of the Board of Directors, seeks to acquire a controlling interest in the Company by purchasing shares of Saucon Holding in the Second Stage Offering. This conflict of interest is described above under the heading “Conflict of Interest.”

The Plan of Conversion has resulted in litigation. The pendency of the litigation limits the ability of the Company’s management to focus on operations.

The Plan of Conversion has resulted in litigation which remains pending, as described above under the heading “Background to the Conversion Transactions–Litigation Relating to the Conversion Transactions.” Saucon Mutual’s management has been forced to spend time dealing with this litigation that could otherwise have been spent tending to and advancing the business of the Company. Additionally, at this stage there can be no timetable for determining when the litigation will be concluded. While the Company is confident in its position in the pending litigation, there can be no assurance that the outcome of the litigation will be favorable to the Company’s position. An unfavorable final outcome of the litigation could result in a material adverse impact on the Company’s business. Litigation is subject to inherent uncertainties and the Company’s view of these matters may change in the future.

A legal challenge to the approval of the Plan of Conversion by the Pennsylvania Insurance Department could result in uncertainty regarding the terms of the Conversion Transactions.

The Pennsylvania Insurance Department was required to approve the Plan if it found that the Plan does not prejudice the interest of the members of the Company, is fair and equitable, and complies with the Pennsylvania Mutual-to-Stock Conversion Act. The Pennsylvania Insurance Department issued its order approving the Plan on [DATE]. A Special Meeting of the Eligible Members to consider and approve the Plan has been called for [DATE].

Pennsylvania law generally provides that any action challenging the validity of the Plan or acts taken in connection with the conversion must be commenced no later than thirty days after the Commissioner of the Pennsylvania Insurance Department approves the Plan or the Eligible Members adopt the Plan at the Special Meeting, whichever is later. Such an action would be initiated by a Petition for Review with the Commonwealth Court of Pennsylvania. The approval of the Plan by the Commissioner would likely be upheld unless the court determined that the Commissioner abused her discretion in approving the Plan. That discretion would extend to the type of review conducted by the Commissioner, including whether to hold a hearing and the type of hearing to be held. A successful challenge could result in a temporary or permanent injunction, or perhaps a remand to the Commissioner for further proceedings.

The Company is not currently aware of any lawsuits or proceedings challenging the order issued by the Pennsylvania Insurance Department to approve the Plan to demutualize Saucon Mutual. However, there can be no assurance that any such lawsuits or proceedings will not be commenced.

Risks Related to the Company's Operations

Saucon Mutual has not meaningfully conducted insurance underwriting since 2005, which makes it difficult to predict the future prospects and financial performance of Saucon Insurance Company.

For the reasons described above under the heading "Background to the Conversion Transactions—Description of Saucon Mutual," Saucon Mutual has no meaningful insurance underwriting experience in the past twelve years. As a result, Saucon Mutual has no effective track record from which to project future operating results. In certain respects, the position of the Company after the Conversion Transactions will resemble that of a start-up property and casualty company. There can be no assurance that the Company will be able to successfully execute its business plan.

The Company's rating agency recently downgraded Saucon Mutual.

A.M. Best, the rating agency that rates Saucon Mutual, was informed of the proposed Conversion Transactions when Saucon Mutual first filed the original version of the plan of conversion with the Pennsylvania Insurance Department in September 2014. A.M. Best was satisfied that the Company's financial strength would not be compromised by the conversion transactions as proposed by that version of the plan of conversion, hence the continuation of the Company's "A" rating. However, the unknowns surrounding the risk involved in re-entering the insurance underwriting business after closing of those conversion transactions led it to assign a negative outlook. In January 2017, A.M. Best removed the negative outlook, but Saucon Mutual's rating was downgraded from an "A" to "A-". In its press release regarding the ratings downgrade, A.M. Best noted that "[r]estructuring plans that have the potential to change the company's business profile with regard to the source of new business and type of exposures insured have been discussed over the past few years. This new structure and profile pose execution risk and potential staffing implications."

A downgrade in the financial strength rating of an insurance company adversely affects the ability of that company to write new insurance policies. Additionally, some potential purchasers of insurance policies may be subject to rules or recommendations that require or encourage them to buy insurance policies only from carriers with an "A" rating, which means that a downgrade of the Company's ratings may encourage some potential customers to place their business with a competitor of the Company.

There is a risk that the Company's resumption of an insurance underwriting business will not be able to overcome the risks that A.M. Best considered when assigning its rating.

Furthermore, the Company could in the future be subject to further ratings downgrades, which could adversely affect the Company's competitiveness and its ability to compete in the insurance underwriting business.

The Company does not currently have the workforce or infrastructure that will be necessary to re-enter the business of underwriting insurance.

The Company's workforce is small, consisting of only three employees. In order to successfully resume an insurance underwriting business, the Company will have to attract qualified personnel, and assemble an effective management staff. Attracting additional managers and employees with industry-relevant experience will be particularly challenging for the Company given that the Company has substantially

no active insurance underwriting business, which means that new personnel will have to be responsible for initiating those operations, essentially from a start-up position. Potential personnel who have the skills and risk appetite for such an undertaking are likely to have compensation expectations that are different from those of employees of established, stable insurance companies. Competition to attract and retain suitable personnel can also increase the Company's compensation expenses.

Additionally, the business of underwriting property and casualty insurance is highly dependent upon insurance company infrastructure, including sophisticated information technology and telecommunications systems. The Company does not currently have the necessary infrastructure to underwrite new insurance policies, and must acquire or develop that infrastructure in order to process new business, perform actuarial and underwriting functions, expand its customer service capabilities, administer claims on new policies, facilitate premium collections, and otherwise administer policies.

If the Company is not successful in attracting and retaining skilled personnel as needed, and in developing effective infrastructure, the Company's effort to re-enter the insurance underwriting business will not succeed.

The Company is dependent upon the continuing services of Stephen Bajan, its Chief Executive Officer.

The Company is dependent upon the continuing services of Stephen Bajan, its Chief Executive Officer, who is the only officer of the Company who is a full-time employee. If Mr. Bajan's services were lost and he could not be immediately replaced, the Company would be negatively impacted.

The Company does not currently have relationships with producers.

Many small property and casualty insurance companies depend on independent, non-exclusive insurance agents and brokers as producers to sell their policies. The Company does not currently have relationships with such producers, and must develop a network of relationships with producers in order to successfully re-enter the business of underwriting property and casualty insurance. If the Company does not successfully establish and maintain these relationships, it will not be able to sell its insurance policies. If the Company is forced to pay higher than market commission rates to attract producers, its profitability could be negatively impacted. Furthermore, if the producers with which the Company establishes relationships are unable to attract and retain customers for the Company's products, the Company's prospects would be materially affected.

In its order approving the Plan, the Pennsylvania Insurance Department has placed conditions on the Company and on Saucon Holding that may affect the Company's business. These conditions may adversely affect the Company's business.

When the Pennsylvania Insurance Department issued its decision and order on [DATE] approving the Plan, the order was made subject to certain conditions, including the following:

- [NOTE TO PENNSYLVANIA INSURANCE DEPARTMENT: This placeholder will be replaced with a description of any conditions set forth in the approval order.]

Those conditions will affect the Company's freedom of action following the closing of the Conversion Transactions, and compliance with those conditions may require the Company to incur expenses that

would not have to be incurred but for the Pennsylvania Insurance Department's order, or to forego certain business or transactional opportunities. If the Company is unable to comply fully with these conditions, the Company may be subject to regulatory action which could have an adverse effect on its financial condition and results of operation.

The Company will compete with other property and casualty insurance companies.

The property and casualty insurance industry is highly competitive. Many of the Company's property and casualty insurance competitors have well-established national reputations and they market products that compete with those of the Company. In addition, the insurance industry consistently attracts well-capitalized new entrants to the market.

Competition in the property and casualty insurance business is based on many factors, including premiums charged, services provided, financial ratings assigned by independent rating agencies, speed of claims payments, reputation, perceived financial strength, general experience, and the management of the investment portfolio. Because the Company does not have a recent track record of underwriting insurance, it is not yet possible to determine how the Company's capabilities will compare to the offerings of the Company's competitors. Some of the Company's competitors will have resources and operational capabilities that exceed those of the Company. In order for the Company to successfully re-enter the business of underwriting property and casualty insurance, the Company must successfully compete with other property and casualty insurance companies, including mature and established companies with an established track record.

Because of the competitive nature of the insurance industry, there can be no assurance that the Company will be able to compete effectively with its industry rivals, including new entrants, or that competitive pressures will not have a material effect on its business, operating results or financial condition.

The Company has historically focused on a narrow product, which leaves it at a competitive disadvantage.

The Company faces a competitive disadvantage due to the fact that it has historically focused only on a narrow product: perpetual homeowners and dwelling property insurance. Some of the Company's competitors have additional competitive leverage because of the wide array of insurance products that they offer. For example, a prospective customer may find it more efficient or less expensive to purchase multiple lines of insurance coverage (such as homeowner's insurance and automobile insurance) from a single carrier. Because the Company has not historically offered, and in the near term does not anticipate offering, a range of insurance products, the Company may lose potential customers to other competitors who do offer a wider selection of insurance products.

Additionally, the business of selling homeowners insurance is cyclical in nature, and is characterized by periods of so-called "soft" market conditions in which premium rates are stable or falling, insurance is readily available and insurers' profits decline, and by periods of so-called "hard" market conditions, in which rates rise, coverage may be more difficult to find and insurers' profits increase. This cyclicity may depend upon a number of factors, including the strength or weakness of the housing market generally and, more specifically, of the housing market in the geographic regions in which the Company does business. Competitors of the Company that offer a wider range of products, or that offer them over

a wider geographic area, may be less vulnerable than the Company to insurance cycles that adversely affect the Company's business.

As a property and casualty insurer, the Company may face significant losses from catastrophes and severe weather events.

Because of the exposure of the Company's property and casualty insurance business to catastrophic events, the Company's operating results and financial condition may vary significantly from one period to the next. Catastrophes can be caused by various natural and man-made events, including tornadoes, hurricanes, tropical storms, cyber threats, terrorism or industrial accidents. The Company may incur catastrophe losses in its property business in excess of: (1) those experienced in prior years, (2) the average expected level used in pricing, (3) its current reinsurance coverage limits, or (4) loss estimates from external catastrophe models at various levels of probability.

The Company is exposed to catastrophes that could have a material effect on its operating results and financial condition. Although the Company has historically financed the settlement of catastrophes from operating cash flows and reinsurance, the Company's liquidity could be constrained by a catastrophe, or multiple catastrophes, which result in extraordinary losses or a downgrade of its debt or financial strength ratings. In addition, the Company is subject to claims arising from weather events such as winter storms, rain, hail and high winds, that affect the regions in eastern Pennsylvania covered by the Company's existing insurance policies and that are expected to be covered by new policies. The incidence and severity of weather conditions are largely unpredictable. There is generally an increase in the frequency and severity of property claims when severe weather conditions occur. These circumstances may result in significant losses for the Company.

The Company is exposed to concentrated insurance risk because its property and casualty insurance policies all cover properties in eastern Pennsylvania.

The insurance policies that the Company has written are primarily homeowners and dwelling property policies covering properties in six counties in eastern Pennsylvania and with a particular focus on the Lehigh Valley (the region where the Company's headquarters has been located since its inception). Due to this geographic concentration, the Company is particularly vulnerable to risks such as weather events that affect the regions in which the Company has written insurance, especially since a single catastrophic event such as a hurricane, thunderstorm, ice storm, blizzard, tornado, flood or other calamity may damage many properties that the Company has insured and require the Company to pay many claims at the same time.

Due to the nature of the Company's primary product, the perpetual policy, the Company is unable to issue endorsements to those policies that enable the Company to limit or preclude coverage for emerging risks not anticipated at the time of the policies' issuance.

If the Company is unable to obtain or maintain reinsurance, its ability to write new policies and to renew existing non-perpetual policies would be adversely affected and its financial condition and results of operation could be adversely affected.

Like other property and casualty insurers, the Company manages its risk by buying reinsurance. Reinsurance is an arrangement in which an insurance company, called the ceding company, transfers a portion of insurance risk under policies it has written to another insurance company, called the reinsurer,

and pays the reinsurer a portion of the premiums relating to those policies. Conversely, the reinsurer receives or assumes reinsurance from the ceding company. Saucon Mutual currently purchases reinsurance pursuant to reinsurance treaties to cover certain kinds of losses. However, the treaties include certain exclusions for which the reinsurers are not liable for losses, such as terrorism, mold, war, pollution and environmental impairment, and nuclear incidents. Any losses that the Company suffers that are not covered by reinsurance could subject the Company to substantial losses.

Additionally, the reinsurance treaties apply for a limited period of time and then cease to be in force unless they are renewed. The Company cannot be certain that the reinsurance treaties will be renewed or replaced prior to their expiration on satisfactory terms. If the Company is unable to renew or replace its reinsurance treaties upon terms that are satisfactory to the Company, the Company's net liability on individual risks would increase and the Company would have greater exposure to catastrophic losses. If this were to occur, the Company's underwriting results would be subject to greater variability and its underwriting capacity would be reduced. These consequences could materially adversely affect the Company's financial condition and results of operations.

The Company's current exclusive reliance on the performance of its investment portfolio to fund its operations and satisfy its capital and surplus requirements makes the Company's success dependent on the performance of the securities markets.

For the last several years, because Saucon Mutual has not been actively underwriting new insurance or collecting new premiums, the Company has depended exclusively upon the returns on its investment portfolio to fund its operations and expenses and to ensure that it maintains the level of capital and surplus required by law. This will remain the case for the foreseeable future until the Company successfully re-enters the insurance underwriting business. Because most of the policies previously issued by the Company are perpetual policies, the Company collected the premiums for those policies at inception and does not have an expectation of being able to collect additional premiums on those policies.

For these reasons, the Company is highly dependent on the economic environment, both in the United States and around the world. Extreme market events, such as the global financial crisis during 2008 and 2009 have at times led, and could in the future lead, to a lack of liquidity, highly volatile markets, a steep depreciation in asset values across all classes or in the classes in which the Company invests, an erosion of investor and public confidence, and widening of credit spreads. Concerns and events beyond the Company's control, such as political uncertainty, U.S. fiscal and monetary policy, changes in interest rates, changes in trade policy, Brexit, and other events and circumstances have in the past and may in the future adversely affect liquidity, increase volatility, decrease asset prices and erode confidence. Difficult economic conditions may also result in increased unemployment and a severe decline in business across a wide range of industries and regions.

These market and economic factors could negatively affect the value of the Company's investment assets or the amount of income or returns that the Company may receive from them. If the Company's investment assets decrease in value or the Company's investment income drops, the Company currently does not have alternative sources of revenue to make up for it. If the Company's investment assets decrease to such an extent that the Company no longer maintains the required statutory capital, the Pennsylvania Insurance Department could take regulatory control of the Company.

The Company is subject to regulatory risk.

The business of underwriting property and casualty insurance is extensively regulated in Pennsylvania, the only jurisdiction in which the Company is licensed to write insurance. The Pennsylvania Insurance Department has broad regulatory powers that are designed primarily to protect policyholders, not shareholders or other investors. Pennsylvania's insurance regulations include, among other things:

- Standards of solvency, including risk-based capital measurements;
- Restrictions on the nature, quality and concentration of investments;
- Restrictions on the types of terms that the Company can include in its insurance policies;
- Requirements for the handling, reporting and adjusting of claims;
- Procedures for adjusting claims, which can affect the cost of a claim;
- Restrictions on the way rates are developed and premiums are determined;
- The manner in which agents may be appointed;
- Establishment of liabilities for unearned premiums, unpaid losses and loss adjustment expenses and other purposes;
- Limitations on the Company's ability to transact business with its affiliates;
- Mergers, acquisitions, divestitures and other change-of-control transactions;
- Licensing requirements and approvals that affect the Company's ability to do business; and
- Restrictions on the payment of dividends.

The Pennsylvania Insurance Department has broad discretion to deny or revoke licenses for various reasons, including the violation of laws or regulations. There is a risk that the Company will be unable to maintain all required approvals or comply fully with the wide variety of applicable laws and regulations, which are continually undergoing revision and which may be interpreted differently by the Pennsylvania Insurance Department at different times.

This extensive regulation of the Company's business may affect the cost of or the demand for the Company's products and may limit the Company's ability to charge appropriate rates or take other actions that it might pursue to increase profitability. Further, changes in the level of regulation of the insurance industry or of the sectors in which the Company operates or intends to operate, or changes in laws or regulations or interpretations by the Pennsylvania Insurance Department could impact the Company's operations and require it to bear additional costs of compliance.

INSTRUCTIONS FOR PARTICIPATION IN THE SAUCON HOLDING OFFERING

Eligible Members who wish to participate in the Saucon Holding Offering by subscribing for shares of Saucon Holding rather than receiving the Member Compensation must follow the following instructions:

- Complete and execute the First Stage Offering Subscription Agreement, a copy of which is attached as Exhibit 4 to this Member Information Statement.
- Complete and execute the confidential subscriber questionnaire that is attached as Exhibit A to the First Stage Offering Subscription Agreement.
- If you are subscribing for at least 162,500 shares of Saucon Holding, execute the joinder to the Saucon Holding Shareholder Agreement, a copy of which is attached as Exhibit 5 to this Member Information Statement. (Note that even if you subscribe for fewer than 162,500 shares of Saucon Holding, if upon the conclusion of the Saucon Holding Offering your subscription ends up constituting a subscription for five percent or more of the aggregate number of shares of Saucon Holding that will be outstanding, your subscription will be conditioned upon your executing and delivering a joinder to the Saucon Holding Shareholder Agreement.)
- Return these materials to Saucon Mutual, care of Stephen Bajan, at 74 West Broad Street, Suite 300, Bethlehem, PA 18018 on or before the First Stage Offering Deadline. It is recommended that the materials be delivered by overnight delivery, or certified or registered mail, return receipt requested, so that there can be confirmation of delivery. Note that this deadline is in advance of the date of the Special Meeting, so that information about the outcome of the First Stage Offering can be known and discussed at the Special Meeting.
- Tender your subscription price to Saucon Holding by including a cashier's check, payable to Saucon Mutual Insurance Company, in the amount of your subscription price together with your delivery of the documents described above. (A personal check will not be accepted.) The check is to be made payable to Saucon Mutual Insurance Company because Saucon Holding will not have its own deposit accounts until the closing of the Conversion Transactions.

If these materials, and your subscription price, are not received by the First Stage Offering Deadline, then you will not be regarded as having subscribed for shares of Saucon Holding in the First Stage Offering, and you will receive the Member Compensation upon the closing of the Conversion Transactions.

Please note that an Eligible Member who subscribes for shares of Saucon Holding in the First Stage Offering, and the members of the Control Group who subscribe for shares of Saucon Holding in the Second Stage Offering, will not receive the Member Compensation that is described in this Member Information Statement under the heading "Description of Member Compensation."

**INSTRUCTIONS FOR VOTING ON ADOPTION OF THE PLAN AND RELATED
AMENDMENT TO SAUCON MUTUAL'S ARTICLES OF INCORPORATION**

The Special Meeting will be held at [TIME], [DATE] at [LOCATION]. [NOTE TO PENNSYLVANIA INSURANCE DEPARTMENT: DATE OF MEETING TO BE LATER THAN FIRST STAGE OFFERING DEADLINE.] Detailed instructions for voting on the adoption of the Plan and related amendments to Saucon Mutual's Articles of Incorporation are set forth in the "Saucon Mutual Insurance Company—Special Meeting of Policyholders—Voting Instruction" attached as Exhibit 7 to this Member Information Statement.

If the Conversion Transactions close, Eligible Members who do not subscribe for shares of Saucon Holding will receive the Member Compensation, regardless of whether or not they vote for the Plan.

AUDITED FINANCIAL STATEMENTS OF SAUCON MUTUAL

Saucon Mutual's audited financial statements for the fiscal years ended December 31, 2016, 2015 and 2014 are attached as Exhibit 3 to this Member Information Statement. Those audited financial statements were prepared in accordance with generally accepted accounting principles in the United States.

FAIRNESS OPINION OF STONERIDGE

[NOTE TO PENNSYLVANIA INSURANCE DEPARTMENT: THIS IS A PLACEHOLDER FOR A DESCRIPTION OF THE STONERIDGE FAIRNESS OPINION.]

VALUATION ANALYSIS OF SAUCON MUTUAL BY STONERIDGE

StoneRidge was engaged by the Pennsylvania Insurance Department to conduct an independent valuation analysis of Saucon Mutual. On November 29, 2016, StoneRidge delivered the Saucon Mutual Insurance Company Valuation Analysis to the Pennsylvania Insurance Department. A copy of StoneRidge's report is attached to this Member Information Statement as Exhibit 6.

StoneRidge stated that as part of its review, it reviewed extensive information and performed other due diligence. Additionally, StoneRidge considered comparable public companies and comparable merger and acquisition transactions. StoneRidge determined that these comparable analyses were not relevant because the lack of comparability to the specific circumstances of Saucon Mutual, which has not issued new policies in the last ten years and which has focused on the perpetual homeowners insurance market.

StoneRidge based its valuation on two valuation methodologies: the sum of the parts analysis and the discounted cash flow analysis. Based upon the average of these two valuation methodologies, StoneRidge selected a valuation range for Saucon Mutual of between \$2.4 million and \$3.2 million.

StoneRidge's valuation was not intended, and must not be construed, as a recommendation of any kind as to the advisability of subscribing for the shares of Saucon Holding in the Saucon Holding Offering. In preparing the valuation, StoneRidge relied upon and assumed the accuracy and completeness of financial, statistical and other information provided to it by Saucon Mutual. StoneRidge did not independently verify the financial statements and other information provided to it by Saucon Mutual, nor did StoneRidge value independently Saucon Mutual's assets and liabilities. The valuation considered Saucon Mutual only as a going concern and should not be considered as an indication of its liquidation value. The valuation was necessarily based upon estimates of a number of matters, all of which are subject to change from time to time.

The aggregate subscription price for all of the shares of Saucon Holding is \$3,250,000, which is larger than the higher end of StoneRidge's valuation range for Saucon Mutual. This means that subscribers for the shares of Saucon Holding would be paying an amount for those shares in the aggregate that exceeds the higher end of StoneRidge's valuation range for Saucon Mutual.

RECOMMENDATION OF THE BOARD OF DIRECTORS

On March 22, 2017, the Board of Directors of Saucon Mutual approved and adopted the Plan by the requisite majority and without opposition. **The Board of Directors of Saucon Mutual recommends that you vote:**

“FOR” the adoption of the Plan; and

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

1

**(COPY OF PLAN &
EXHIBITS)**

2

AMENDED AND RESTATED
ARTICLES OF INCORPORATION
OF
SAUCON MUTUAL INSURANCE COMPANY

In accordance with the laws of the Commonwealth of Pennsylvania, the Articles of Incorporation of Saucon Insurance Company (formerly Saucon Mutual Insurance Company) are hereby amended in their entirety and restated as set forth below. The date of the original Act of Incorporation passed by the General Assembly of the Commonwealth was May 3, 1832. These Restated and Amended Articles of Incorporation were duly adopted in accordance with 15 Pa. C.S.A. §1914 of the Pennsylvania Business Corporation Law and were adopted in connection with a Plan of Conversion pursuant to provisions of the Insurance Company Mutual-to-Stock Conversion Act, 40 P.S. §§ 911-A et seq. (the "Conversion Act"), which Plan of Conversion has been approved by the Insurance Commissioner of the Commonwealth of Pennsylvania and the members of Saucon Mutual Insurance Company. These amended and restated Articles were approved by the Insurance Commissioner in accordance with 15 Pa. C.S. §21204 (a).

FIRST: The name by which the corporation shall be known is "SAUCON INSURANCE COMPANY."

SECOND: The classes of insurance for which the corporation is constituted are Paragraphs (1) and (2) of Subdivision (b) and Paragraphs (3), (4), (5), (6), (8), (9) and (13) of Subdivision (c) as provided for in Section 202 of the Insurance Department Act of 1921, as amended, and include the following:

(b)(1) on dwelling houses, stores, and all kinds of buildings, and household furniture and other property,--against loss or damage, including loss of use or occupancy, by fire, smoke, smudge, lightning, and explosion, whether fire ensue or not, and by tornadoes, cyclones, windstorms, earthquakes, hail, frost, sleet, snow, or flood; against loss or damage by water to any goods or premises, arising from the breakage or leakage of sprinklers, pumps, or other apparatus erected for extinguishing fires, and of water pipes; against accidental injury to such sprinklers, pumps, or other apparatus; against loss or damage caused by the caving in of the surface of the earth above coal mines; against perils to property arising from the ownership or maintenance or from the use of aircraft, automobiles, or other motor vehicles; against loss or damage caused by bombardment, invasion, insurrection, riot, civil war, or commotion, and military or usurped power; and against damage to property as specified in

this paragraph by any or all risks not herein specifically designated; and to effect reinsurance of any risk provided for in this clause.

(b)(2) upon vessels, boats, cargoes, goods, personal property, merchandise, freight and other property, against loss or damage by all or any of the risks of lake, river, canal, and inland navigation and transportation, including all personal property floater risks; upon automobiles, airplanes, seaplanes, dirigibles, or other aircraft, whether stationary or in operation or in transit, against loss or damage by fire, explosion, transportation, collision, or by burglary, larceny, or theft; not including, in any case, insurances against loss by reason of bodily injury to the person; and to effect reinsurance of any risk provided for in this clause.

(c)(3) to insure against loss of, and damage to, glass, including lettering and ornamentation thereon, and the frame in which the glass is set, resulting from breakage of the insured glass.

(c)(4) to insure any one against loss or damage resulting from accident to, or injury, fatal or non-fatal, suffered by any person for which the person insured is liable; to insure against medical, hospital, surgical and funeral expenses incurred by or on behalf of the persons accidentally injured, including the person insured; to insure against loss or damage to property caused by horses, or by any vehicle drawn by animal power, for which loss or damage the person insured is liable; and to insure against loss or damage to property, for which loss or damage the person insured is liable, but not including any kind of property damage insurance specified in other paragraphs of this section. Nothing in this paragraph shall apply to any kind of insurance against loss or damage resulting from the ownership, maintenance or use of a motor vehicle. Further, nothing contained in this paragraph shall apply to any kind of workmen's compensation insurance against loss or damage resulting from accident to, or injury, fatal or non-fatal, suffered by an employe for which the person insured is liable or against medical, hospital, surgical and funeral expenses incurred by or on behalf of the employe accidentally injured as provided for in clause (14), subdivision (c) of section 202.

(c)(5) to insure steam boilers, and pipes, flywheels, engines, and machinery connected therewith or operated thereby, against loss caused by explosion or accident; and against loss of or damage to life, person, or property resulting therefrom; and against loss of use and occupancy caused thereby; and to make inspection of, and issue certificates of inspection upon, such boilers, pipes, flywheels, engines, and machinery.

(c)(6) to insure against loss or damage by burglary, larceny, theft, robbery, forgery, fraud, vandalism or malicious mischief (or any one or more of such hazards), and to insure against any and all kinds of loss or destruction of, or damage to, moneys, securities, currencies, scrip, coins,

bullion, bonds, notes, drafts, acceptance drafts, bills of exchange, and other valuable papers or documents, except while in the custody or possession of, and being transported by, a carrier for hire or in the mail, and against loss or damage to automobiles and aircraft by burglary, larceny or theft, vandalism or malicious mischief, confiscation or wrongful conversion, disposal or concealment, whether held under conditional sale contract or subject to chattel mortgages, or otherwise, or any one or more of such hazards.

(c)(8) to insure any goods or premises against loss or damage by water or other fluid, caused by the breakage or leakage of sprinklers, pumps, or other apparatus erected for extinguishing fires, or of other conduits or containers, or of water pipes, or caused by casual water entering through leaks or openings in buildings; and against accidental injury, from causes other than fire or lightning, to such sprinklers, pumps, water pipes, conduits, containers, or other apparatus; and against damage from use or occupancy of premises by reason of such loss or damage.

(c)(9) to insure against loss or damage to elevators or other property, except loss or damage by fire, caused by the maintenance, operation, or use of elevators and machinery; loss or legal liability for damage to property resulting from such operation, maintenance, or use of elevators.

(c)(13) to insure by means of an all-risk type of policy, commonly known as "The Personal Property Floater Policy," against all risks of loss of or damage to personal property owned by any individual other than merchandise, motor vehicles, aircraft, water-craft (excepting canoes, rowboats, sailboats less than twenty-one feet in length and outboard motor boats), or, personal property, pertaining to the business, trade or profession of the insured (excepting professional books, instruments and other professional equipment owned by the insured).

THIRD: The address of the corporation's registered office in this Commonwealth is 74 West Broad Street, Suite 300, Bethlehem, PA 18018.

FOURTH: The corporation is incorporated under the provisions of the Insurance Company Law of 1921, as amended.

FIFTH: The basis on which the corporation is organized is the stock share basis. The purpose of the corporation is to engage in all lawful businesses of insurance, and to have unlimited power to engage in and to do any lawful act concerning any or all lawful business for which corporations may be incorporated under the Insurance Company Law of 1921, as amended, and the Business Corporation Law of 1988, as amended.

- SIXTH:** The aggregate number of shares which this corporation shall have the authority to issue consist of One Thousand (1,000) Shares of voting Common Stock, par value \$950.00 per share having one (1) vote per share.
- SEVENTH:** The corporation shall indemnify every director and officer, and may indemnify any employee or agent, to the fullest extent permitted by the Pennsylvania Business Corporation Law of 1988, as amended, and any other present or future provision of Pennsylvania law. The corporation shall pay and advance expenses to directors and officers for matters covered by indemnification to the fullest extent permitted by such law. Such indemnification shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any By-Laws, Agreement, vote of Shareholders or otherwise.
- EIGHTH:** The power to alter, amend or repeal the corporation's By-Laws shall be vested in the Board of Directors. The number of directors of the corporation shall be determined in a manner as specified in the By-Laws of the corporation.
- NINTH:** The Effective Date of these Amended and Restated Articles of Incorporation shall be *insert date that is selected as the date of closing of the conversion*.
- TENTH:** The Shareholders of the corporation shall not have cumulative voting rights.

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**SAUCON MUTUAL
INSURANCE COMPANY
Financial Statements
December 31, 2016, 2015 and 2014
With Independent Auditors' Report**

Saucon Mutual Insurance Company
December 31, 2016, 2015 and 2014

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors,
Saucon Mutual Insurance Company

Report on the Financial Statements

We have audited the accompanying financial statements of Saucon Mutual Insurance Company, which comprise the balance sheets as of December 31, 2016, 2015 and 2014, and the related statements of operations and comprehensive income (loss), stockholders' equity and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Saucon Mutual Insurance Company as of December 31, 2016, 2015, and 2014, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

WithumSmith+Brown, PC

March 30, 2017

Saucon Mutual Insurance Company
Balance Sheets
December 31, 2016, 2015 and 2014

Assets	2016	2015	2014
Cash and cash equivalents	\$ 998,813	\$ 1,358,369	\$ 1,485,389
Interest and dividends due and accrued	40,064	42,466	44,423
Receivable from related party	7,865	61,260	100,517
Prepaid expenses	92,860	89,721	10,238
Reinsurance losses recoverable	--	--	1,241
Investments			
Bonds	648,626	603,490	721,320
Common stocks	<u>18,342,023</u>	<u>17,018,027</u>	<u>17,854,118</u>
Total investments	18,990,649	17,621,517	18,575,438
Property and equipment, net	1,186	12,431	29,278
Other assets	<u>5,963</u>	<u>5,963</u>	<u>5,963</u>
	<u>\$ 20,137,400</u>	<u>\$ 19,191,727</u>	<u>\$ 20,252,487</u>
Liabilities and Stockholders' Equity			
Loss reserves	\$ 293,000	\$ 41,500	\$ 86,401
Loss adjustment expenses	36,000	7,000	12,000
Unearned premiums	4,037	4,404	5,590
Amounts withheld/retained by Company for account of others	3,325	6,637	8,039
Accrued expenses	139,444	125,000	87,000
Federal income taxes payable	5,000	5,000	5,000
Advance premiums	772	737	715
Perpetual deposits reserved for policyholders	2,182,191	2,230,571	2,234,993
Deferred taxes	<u>1,985,514</u>	<u>1,723,443</u>	<u>2,152,517</u>
Total liabilities	4,649,283	4,144,292	4,592,255
Stockholders' equity			
Retained earnings	11,595,002	11,646,243	11,437,149
Accumulated other comprehensive income			
Unrealized gain on investments	<u>3,893,115</u>	<u>3,401,192</u>	<u>4,223,083</u>
Total stockholders' equity	<u>15,488,117</u>	<u>15,047,435</u>	<u>15,660,232</u>
	<u>\$ 20,137,400</u>	<u>\$ 19,191,727</u>	<u>\$ 20,252,487</u>

The Notes to Financial Statements are an integral part of these statements.

Saucon Mutual Insurance Company
Statements of Operations and Comprehensive Income (Loss)
Years Ended December 31, 2016, 2015 and 2014

	2016	2015	2014
Net premiums ceded	\$ (87,127)	\$ (83,332)	\$ (84,662)
Less underwriting deductions			
Losses incurred	336,976	36,606	144,001
Loss expenses incurred	69,418	25,524	37,757
Other underwriting expenses incurred	878,552	966,001	1,245,118
Net underwriting loss	<u>(1,372,073)</u>	<u>(1,111,463)</u>	<u>(1,511,538)</u>
Investment gain			
Net investment income earned	322,034	330,990	317,082
Net realized capital gains	<u>967,390</u>	<u>916,980</u>	<u>1,280,772</u>
Net investment gain	1,289,424	1,247,970	1,597,854
Other (loss) income	(7,996)	5,437	--
Agency reimbursement income	<u>39,404</u>	<u>67,150</u>	<u>82,139</u>
Net income (loss)	(51,241)	209,094	168,455
Other comprehensive income (loss), before tax:			
Net unrealized gain (loss) on investments	753,995	(1,250,965)	196,597
Less: income tax expense (benefit) related to other comprehensive income (loss)	<u>(262,072)</u>	<u>429,074</u>	<u>(48,565)</u>
Total other comprehensive income (loss), net of taxes	<u>\$ 440,682</u>	<u>\$ (612,797)</u>	<u>\$ 316,487</u>

The Notes to Financial Statements are an integral part of these statements.

Saucon Mutual Insurance Company
Statements of Stockholders' Equity
Years Ended December 31, 2016, 2015 and 2014

	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, January 1, 2014	\$ 11,268,694	\$ 4,075,051	\$ 15,343,745
Unrealized gain on investments, net of taxes	--	148,032	148,032
Net income	<u>168,455</u>	<u>--</u>	<u>168,455</u>
Balance, December 31, 2014	11,437,149	4,223,083	15,660,232
Unrealized loss on investments, net of taxes	--	(821,891)	(821,891)
Net income	<u>209,094</u>	<u>--</u>	<u>209,094</u>
Balance, December 31, 2015	11,646,243	3,401,192	15,047,435
Unrealized gain on investments, net of taxes	--	491,923	491,923
Net loss	<u>(51,241)</u>	<u>--</u>	<u>(51,241)</u>
Balance, December 31, 2016	<u>\$ 11,595,002</u>	<u>\$ 3,893,115</u>	<u>\$ 15,488,117</u>

The Notes to Financial Statements are an integral part of these statements.

Saucon Mutual Insurance Company
Statements of Cash Flows
Years Ended December 31, 2016, 2015 and 2014

	2016	2015	2014
Cash flows from operating activities			
Net (loss) income	\$ (51,241)	\$ 209,094	\$ 168,455
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities			
Depreciation	11,245	16,847	17,054
Deferred taxes	(262,072)	429,074	(48,565)
Realized gain	(967,390)	(916,980)	(1,280,772)
Unrealized loss (gain)	753,994	(1,250,965)	196,597
Changes in operating assets and liabilities:			
Interest and dividends due and accrued	359,556	103,273	(3,986)
Reinsurance losses recoverable	2,402	1,957	16,373
Receivable from related party	--	1,241	55,280
Prepaid expense	53,395	39,257	(900)
Other assets (security deposit)	(3,140)	(79,483)	--
Loss reserves	251,500	(44,901)	31,000
Loss adjustment expenses	29,000	(5,000)	5,000
Unearned premiums	(367)	(1,186)	223
Amounts withheld/retained by Company for account of others	(3,312)	(1,402)	2,764
Perpetual deposits reserved for policyholders	(48,380)	(4,422)	(51,271)
Accrued expenses	14,444	38,000	(1,000)
Advance premiums	35	22	26
Net cash provided by (used in) operating activities	<u>139,669</u>	<u>(1,465,574)</u>	<u>(893,722)</u>
Cash flows from investing activities			
Proceeds from investments sold			
Bonds	303,599	217,125	274,020
Stocks	<u>14,587,373</u>	<u>17,005,741</u>	<u>13,200,107</u>
Total investment proceeds	14,890,972	17,222,866	13,474,127
Costs of investments acquired			
Bonds	(351,510)	(99,289)	--
Stocks	<u>(15,038,687)</u>	<u>(15,785,023)</u>	<u>(12,168,648)</u>
Total cost of investments acquired	<u>(15,390,197)</u>	<u>(15,884,312)</u>	<u>(12,168,648)</u>
Net cash (used in) provided by investing activities	<u>(499,225)</u>	<u>1,338,554</u>	<u>1,305,479</u>
Net change in cash	(359,556)	(127,020)	411,757
Cash			
Beginning of year	<u>1,358,369</u>	<u>1,485,389</u>	<u>1,073,632</u>
End of year	<u>\$ 998,813</u>	<u>\$ 1,358,369</u>	<u>\$ 1,485,389</u>

The Notes to Financial Statements are an integral part of these statements.

Saucon Mutual Insurance Company
Notes to Financial Statements
December 31, 2016, 2015 and 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Company is a Pennsylvania mutual insurance company incorporated in 1832 in compliance with the requirements of Sections 322 and 352 of the Insurance Company Law of 1921. The Company, operating on the mutual plan, writes Dwelling Fire, Homeowners, and Inland Marine policies primarily in Lehigh, Northampton, Bucks, Delaware, Montgomery and Chester counties. Standard non-assessable Dwelling Fire, Homeowners, and Inland Marine insurance policies are issued on a perpetual and term basis.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Major estimates by management include: income tax rate used for the calculation of deferred taxes related to unrealized gains and loss reserves.

Cash and Cash Equivalents

For purposes of the financial statements, the Company considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Investments

Investments are comprised of bonds, common stocks and short-term investments. Investments are reported at fair value.

Property and Equipment

Property and equipment are recorded at cost. Depreciation and amortization of property and equipment are provided for by the straight-line method over the estimated useful lives of the related assets, which are as follows:

Furniture and fixtures	7 years
Equipment	5 years

Recognition of Premium Revenues

Premiums received on term insurance policies are recognized on a prorated basis over the policy terms. The portion of premiums that will be earned in the future are deferred and reported as unearned premiums. Policies received for non-assessable perpetual deposits are recorded as a liability and presented as "perpetual deposits reserved for policyholders" on the Balance Sheets.

Income Taxes

On September 24, 2004 the IRS issued Notice 2004-64 alerting taxpayers to recent amendments to IRC 501(c)(15). One of the amendments was the alteration of the threshold for tax-exempt status of insurance companies (other than life insurance companies). Previously, an insurance company, other than a life insurance company was tax-exempt if its net written premiums did not exceed \$350,000. Effective for taxable years beginning after December 31, 2003, property and casualty insurance companies are eligible to be exempt from federal tax if (a) its gross receipts for the taxable year do not exceed \$600,000 and (b) more than 50 percent of its gross receipts for the taxable year consist of premiums. For the years ended December 31, 2016 and 2015, the Company does not meet the exemption, and is a taxable entity.

The Company recognizes deferred tax assets and liabilities for the future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases based on enacted laws and tax rates applicable to the periods in which the differences are expected to affect taxable income.

The Company follows the accounting and disclosure standards dealing with uncertain tax positions, which requires management to evaluate tax positions taken by the Company and recognize a tax liability (or asset) if the Company has taken an uncertain position that more likely than not would not be

Saucon Mutual Insurance Company
Notes to Financial Statements
December 31, 2016, 2015 and 2014

sustained upon examination by the Internal Revenue Service or state taxing authorities. Management has analyzed the tax positions taken by the Company, and has concluded that as of December 31, 2016, 2015 and 2014 there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Company is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Company files income tax returns in the United States federal jurisdiction.

The Company did not have material unrecognized tax benefits as of December 31, 2016, 2015 and 2014 and does not expect this to change significantly over the next 12 months. In addition, there have been no tax related interest or penalties for periods presented in these financial statements. Should any such penalties and interest be incurred, the Company's policy would be to recognize them as operating expenses.

Reinsurance

In the normal course of business, the Company cedes risk to reinsurers. Reinsurance enables the Company to reduce its exposure to large losses, although it does not relieve the Company from its obligations to policyholders. The Company is exposed to a contingent liability with respect to reinsurance which would become an actual liability to the extent that any reinsurer failed to meet its obligations to the Company. Premiums ceded amounted to \$96,145, \$94,371 and \$95,447 for the years ended December 31, 2016, 2015 and 2014, respectively. Reinsurance recovered on claims was \$25,898, \$8,791 and \$2,766 for 2016, 2015 and 2014, respectively. Reinsurance to be recovered on claims was \$-0-, \$-0- and \$1,241 at December 31, 2016, 2015 and 2014.

Loss and Loss Adjustment Expense Liability

The liability for loss and loss adjustment expense is based on case estimates for losses and related adjustment expenses reported prior to the close of the accounting period on the direct business written by the Company. Provision has also been made for unreported losses not identified with specific claims based upon past experience. The Company believes that the provisions for unpaid losses and loss adjustment expenses at December 31, 2016, 2015 and 2014 are adequate to cover the ultimate net cost of losses and claims incurred to those dates. However, the provisions are based on estimates and management makes no representation that the ultimate liability may not exceed or fall short of such estimates. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in the earnings currently. The Company does not discount the liabilities for unpaid losses and loss adjustment expenses.

2. INVESTMENTS

Investments consist of bonds and common stocks. The cost, gross unrealized gains, gross unrealized losses and estimated fair values of investments in debt and equity securities at December 31, 2016, 2015 and 2014 are summarized as follows:

Saucon Mutual Insurance Company
Notes to Financial Statements
December 31, 2016, 2015 and 2014

	December 31, 2016			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Bonds - Governments	\$ 199,674	\$ --	\$ (1,776)	\$ 197,898
Bonds - PA Pol Subdv	99,882	1,148	--	101,030
Bonds - Industrials and Misc	297,759	51,939	--	349,698
Subtotal	<u>597,315</u>	<u>53,087</u>	<u>(1,776)</u>	<u>648,626</u>
Common Stocks - Industrial & Misc	7,038,481	5,102,176	(128,002)	12,012,655
Common Stocks - Mutual Funds	5,376,223	993,290	(40,146)	6,329,367
Common Stocks - Affiliates	100,000	--	(99,999)	1
Subtotal	<u>12,514,704</u>	<u>6,095,466</u>	<u>(268,147)</u>	<u>18,342,023</u>
Total	<u>\$ 13,112,019</u>	<u>\$ 6,148,553</u>	<u>\$ (269,923)</u>	<u>\$ 18,990,649</u>
	December 31, 2015			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Bonds - Governments	\$ 199,302	\$ 135	\$ (525)	\$ 198,912
Bonds - PA Pol Subdv	49,822	4,051	--	53,873
Bonds - Industrials and Misc	306,419	44,286	--	350,705
Subtotal	<u>555,543</u>	<u>48,472</u>	<u>(525)</u>	<u>603,490</u>
Common Stocks - Industrial & Misc	6,282,410	4,174,858	(115,373)	10,341,895
Common Stocks - Mutual Funds	5,391,169	1,183,981	(58,189)	6,516,961
Common Stocks - Affiliates	100,000	--	(99,999)	1
Common Stocks - Foreign	167,760	--	(8,590)	159,170
Subtotal	<u>11,941,339</u>	<u>5,358,839</u>	<u>(282,151)</u>	<u>17,018,027</u>
Total	<u>\$ 12,496,882</u>	<u>\$ 5,407,311</u>	<u>\$ (282,676)</u>	<u>\$ 17,621,517</u>
	December 31, 2014			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Bonds - Governments	\$ 99,989	\$ 1,800	\$ --	\$ 101,789
Bonds - PA Pol Subdv	149,665	6,243	--	155,908
Bonds - Industrials and Misc	406,890	56,733	--	463,623
Subtotal	<u>656,544</u>	<u>64,776</u>	<u>--</u>	<u>721,320</u>
Common Stocks - Industrial & Misc	6,031,480	4,746,113	(10,416)	10,767,177
Common Stocks - Mutual Funds	5,411,814	1,687,463	(12,337)	7,086,940
Common Stocks - Affiliates	100,000	--	(99,999)	1
Subtotal	<u>11,543,294</u>	<u>6,433,576</u>	<u>(122,752)</u>	<u>17,854,118</u>
Total	<u>\$ 12,199,838</u>	<u>\$ 6,498,352</u>	<u>\$ (122,752)</u>	<u>\$ 18,575,438</u>

Saucon Mutual Insurance Company
Notes to Financial Statements
December 31, 2016, 2015 and 2014

Securities with unrealized losses based on estimated market values at December 31, 2016 and 2015 and 2014 are summarized as follows:

	December 31, 2016					
	12 Months or Less		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Bonds -						
Governments	\$ --	\$ --	\$ 100,234	\$ (1,625)	\$ 100,234	\$ (1,625)
Common Stocks -						
Indus & Misc	\$ 1,622,675	\$ (100,238)	\$ 141,790	\$ (27,764)	\$ 1,764,465	\$ (128,002)
Mutual Funds	2,365,303	(35,680)	384,551	(4,466)	2,749,854	(40,146)
Affiliates	--	--	1	(99,999)	1	(99,999)
Total	\$ 3,987,978	\$ (135,918)	\$ 626,576	\$ (133,854)	\$ 4,614,554	\$ (269,772)
	December 31, 2015					
	12 Months or Less		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Bonds -						
Governments	\$ --	\$ --	\$ 98,779	\$ (510)	\$ 98,779	\$ (510)
Common Stocks -						
Indus & Misc	\$ 2,164,100	\$ (115,374)	\$ --	\$ --	\$ 2,164,100	\$ (115,374)
Mutual Funds	1,926,470	(33,264)	787,739	(24,924)	2,714,209	(58,188)
Affiliates	--	--	1	(99,999)	1	(99,999)
Foreign	159,170	(8,590)	--	--	159,170	(8,590)
Total	\$ 4,249,740	\$ (157,228)	\$ 886,519	\$ (125,433)	\$ 5,136,259	\$ (282,661)
	December 31, 2014					
	12 Months or Less		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Common Stocks -						
Indus & Misc	\$ 374,750	\$ (10,416)	\$ --	\$ --	\$ 374,750	\$ (10,416)
Mutual Funds	371,104	(2,355)	485,007	(9,982)	856,111	(12,337)
Affiliates	--	--	1	(99,999)	1	(99,999)
Total	\$ 745,854	\$ (12,771)	\$ 485,008	\$ (109,981)	\$ 1,230,862	\$ (122,752)

Gross realized gains and losses were \$1,300,689 and (\$333,299) for the year ended December 31, 2016, respectively. Gross realized gains and losses were \$1,691,008 and (\$774,028) for the year ended December 31, 2015, respectively. Gross realized gains and losses were \$1,750,980 and (\$470,208) for the year ended December 31, 2014, respectively.

A 2% United States Treasury Bond was on deposit with the Pennsylvania Department of Insurance. The bond had a carrying value at December 31, 2016 and 2015 and 2014 of \$-0-, \$99,998 and \$99,998, respectively. The bond matured on January 31, 2016. The Company no longer holds a statutory deposit.

Saucon Mutual Insurance Company
Notes to Financial Statements
December 31, 2016, 2015 and 2014

3. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	2016	2015	2014
Furniture and fixtures	\$ 45,108	\$ 45,108	\$ 45,108
EDP equipment	32,867	32,867	32,867
Office equipment	<u>7,291</u>	<u>7,291</u>	<u>7,291</u>
	85,266	85,266	85,266
Accumulated depreciation	<u>(84,080)</u>	<u>(72,835)</u>	<u>(55,988)</u>
	<u>\$ 1,186</u>	<u>\$ 12,431</u>	<u>\$ 29,278</u>

Depreciation expense as a charge to income amounted to \$11,245, \$16,847 and \$17,053 for years ended December 31, 2016, 2015 and 2014, respectively.

4. NET INVESTMENT INCOME EARNED

Net investment income earned for the years ended December 31, 2016, 2015 and 2014 consists of the following:

	2016	2015	2014
Investment income – bonds	\$ 23,377	\$ 29,860	\$ 35,177
Interest – money market	351	7	7
Dividends and other	<u>448,905</u>	<u>422,538</u>	<u>495,308</u>
	472,633	452,405	530,492
Less: investment expenses	<u>150,599</u>	<u>121,415</u>	<u>213,410</u>
Net investment income earned	<u>\$ 322,034</u>	<u>\$ 330,990</u>	<u>\$ 317,082</u>

5. RELATED PARTY TRANSACTIONS

The Company owns 100% of the outstanding stock of Saucon Insurance Agency, Inc. (the "Agency"). The officers and directors of the Company serve the Agency in the same capacity. The physical location of the two entities is the same. The Company provided services and rental of facilities to the Agency during the years ended December 31, 2016, 2015 and 2014. The Company has a management agreement with the Agency, in which the Company will provide all management and operational services necessary for the Agency to function as a corporation and an insurance agency. The Agency pays the Company on a quarterly basis for their apportioned general, direct and indirect expenses, as set forth in the agreement. A management fee in the amount of \$39,404, \$67,150 and \$82,139 was charged by the Company for the years ended December 31, 2016, 2015 and 2014, respectively. At December 31, 2016, 2015 and 2014, \$7,865, \$19,184 and \$15,509, respectively, was owed to the Company for their management fee.

The Company loaned the agency \$200,000 on November 1, 2011 to facilitate acquisition of the insurance assets of another agency and to provide operational cash flow for the agency, which was paid off in 2016. The interest rate was extended at 7% for a 60 month term. The loan is secured by a security interest (superior to any and all other as respects priority) in the following collateral: any and all expirations, accounts receivable, policy files, and commissions related to insurance policies written by the agency through any insurer with which the agency places property casualty insurance business. Interest income amounted to \$1,464, \$4,591 and \$7,485 in 2016, 2015 and 2014, respectively. The balance of the loan at December 31, 2016, 2015 and 2014 was \$-0-, \$42,076, and \$85,008, respectively.

One of the Company's directors is also a claims adjuster that the Company utilizes for its insurance claims. These services amounted to \$10,205 for 2016, \$14,355 for 2015 and \$14,169 for 2014. Also one of the Company's directors performs accounting services. These services amounted to \$21,000 for 2016, \$11,188 for 2015, and \$11,900 for 2014.

Saucon Mutual Insurance Company
Notes to Financial Statements
December 31, 2016, 2015 and 2014

6. LOSSES AND LOSS ADJUSTMENT EXPENSES

Activity in the liability for unpaid claims and claim adjustment expenses is summarized as follows:

	2016	2015	2014
Balance at January 1	\$ 48,500	\$ 98,401	\$ 62,402
Incurred related to:			
Current year	435,457	131,425	242,440
Prior year	(29,063)	(69,295)	(60,682)
Paid related to:			
Current year	(106,457)	(82,925)	(144,039)
Prior year	(19,437)	(29,106)	(1,720)
Balance at December 31	<u>\$ 329,000</u>	<u>\$ 48,500</u>	<u>\$ 98,401</u>

7. POLICYHOLDER DEPOSITS

The Company offers on a one-time deposit basis, non-assessable perpetual policies for Dwelling Fire, Homeowners, and Inland Marine. Deposits are 100% refundable upon cancellation.

A summary of perpetual deposits by line of business as of December 31 is as follows:

Line of Business:	2016	2015	2014
Fire	\$ 84,831	\$ 83,248	\$ 88,765
Homeowners	<u>2,097,360</u>	<u>2,147,323</u>	<u>2,146,228</u>
Total Policyholder Deposits	<u>\$ 2,182,191</u>	<u>\$ 2,230,571</u>	<u>\$ 2,234,993</u>

8. PENSION

The Company maintains a Salary Reduction Simplified Employee Pension (SAR-SEP) Plan for eligible employees. Employer contributions made are 5% of the employees' annual salaries. The pension contributions were \$11,164, \$10,885 and \$14,855 for the years ended December 31, 2016, 2015 and 2014, respectively.

9. COMMITMENTS AND CONTINGENCIES

The Company signed a lease agreement commencing November 1, 2011 for 122 months. The monthly payments increase every 12 months through the term of the lease. The lease allowed for a rent abatement of \$5,802.

Future minimum lease payments, subject to lease commitments are as follows

2017	\$ 40,557
2018	41,774
2019	43,027
2020	44,316
2021	45,637
	<u>\$ 215,311</u>

The rent expense was \$39,376, \$38,229 and \$37,115 for the years ended December 31, 2016, 2015 and 2014.

On November 20, 2015, three policyholders commenced a civil action against the Company in the Court of Common Pleas of Dauphin County, Pennsylvania. Plaintiffs seek certifications as a class action, declaratory and injunctive relief preventing the distribution of a member proxy statement and enjoining a

Saucon Mutual Insurance Company
Notes to Financial Statements
December 31, 2016, 2015 and 2014

vote on the currently proposed demutualization and an award of compensatory and punitive damages. To date, the Company has agreed with plaintiffs to postpone the deadline to respond to the complaint while the Pennsylvania Insurance Department considers the Company's proposed demutualization. If the Company is forced to respond to the complaint, they will defend the matter vigorously. Given that the lawsuit is in its very preliminary stages, no amount has been accrued in these financial statements since the outcome of this matter is uncertain and the amount of the liability, if any, cannot be determined.

10. CONCENTRATIONS OF CREDIT RISK

The Company maintains interest bearing cash balances at a financial institution which at times are in excess of amounts insured by the Federal Deposit Insurance Corporation. Balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. Management reviews this periodically and considers the credit risk minimal.

The Company holds significant investments in debt and equity securities of various publicly traded companies. Investments in these types of securities have an inherent risk of loss due to market value fluctuations, including the risk that should these companies fail, the securities would be rendered worthless. Management does not feel that they are exposed to any significant risk as their portfolio is diversified.

11. INCOME TAXES

The provision for income taxes incurred for 2016 and 2015 and 2014 are:

	2016	2015	2014
Federal income tax benefit	\$ <u> --</u>	\$ <u> --</u>	\$ <u> --</u>

The provision for federal income taxes incurred is different from that which would be obtained by applying the federal income tax rate to pretax income. The significant items causing this difference are the dividends-received deduction and the surtax exemption.

The Company had approximately \$231,000, \$177,000 and \$7,000 in net operating loss (NOL) carryforwards at December 31, 2016 and 2015 and 2014, respectively, which will begin to expire in 2022.

As described in Note 1, the Company was a taxable entity in 2016 and 2015 and 2014. Temporary differences which give rise to significant deferred income tax liabilities, which include unrealized gains and NOL carryforwards at December 31, 2016 and 2015 and 2014, are as follows:

	2016	2015	2014
Gross deferred tax assets	\$ 78,562	\$ 60,031	\$ 2,447
Deferred tax liabilities	<u>(2,064,077)</u>	<u>(1,783,474)</u>	<u>(2,154,964)</u>
Net deferred tax liability	<u>\$ (1,985,515)</u>	<u>\$ (1,723,443)</u>	<u>\$ (2,152,517)</u>

The Company estimates that the future capital gains income will be taxed at the rate of 34%, based on the on availability of the surtax exemption.

12. FAIR VALUE MEASUREMENTS

The Company follows the accounting pronouncement for Fair Value Measurements. The standard defines fair value, establishes a framework for measuring fair value and requires disclosures about fair value measurements. Valuation techniques used to measure fair value under the standard must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

Saucon Mutual Insurance Company
Notes to Financial Statements
December 31, 2016, 2015 and 2014

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liabilities.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liabilities.

In accordance with fair value measurement, the following tables represent the Company's fair value hierarchy for its financial assets measured at fair value on a recurring basis as of December 31, 2016:

	Level 1	Level 2	Level 3	Total
Bonds	\$ 298,928	\$ 349,698	\$ --	\$ 648,626
Equities	<u>18,342,022</u>	<u>--</u>	<u>1</u>	<u>18,342,023</u>
	<u>\$ 18,640,950</u>	<u>\$ 349,698</u>	<u>\$ 1</u>	<u>\$ 18,990,649</u>

In accordance with fair value measurement, the following tables represent the Company's fair value hierarchy for its financial assets measured at fair value on a recurring basis as of December 31, 2015:

	Level 1	Level 2	Level 3	Total
Bonds	\$ 252,785	\$ 350,705	\$ --	\$ 603,490
Equities	<u>17,018,026</u>	<u>--</u>	<u>1</u>	<u>17,018,027</u>
	<u>\$ 17,270,811</u>	<u>\$ 350,705</u>	<u>\$ 1</u>	<u>\$ 17,621,517</u>

In accordance with fair value measurement, the following tables represent the Company's fair value hierarchy for its financial assets measured at fair value on a recurring basis as of December 31, 2014:

	Level 1	Level 2	Level 3	Total
Bonds	\$ 257,697	\$ 463,623	\$ --	\$ 721,320
Equities	<u>17,854,117</u>	<u>--</u>	<u>1</u>	<u>17,854,118</u>
	<u>\$ 18,111,814</u>	<u>\$ 463,623</u>	<u>\$ 1</u>	<u>\$ 18,575,438</u>

13. SUBSEQUENT EVENTS

The Company has evaluated subsequent events occurring after the balance sheets through the date of March 30, 2017 which is the date the financial statements were available to be issued. Based on this evaluation, the Company has determined that other than the item noted below, no subsequent events have occurred, which require disclosure in the financial statements.

During 2014, the Company submitted an application to the Commonwealth of Pennsylvania Insurance Department (the "Department") to execute a series of transactions that would convert the Company into a stock corporation, all of the capital stock of which would be held by a newly-organized stock holding corporation. In turn, all of the capital stock of that stock holding corporation would be held by investors in a stock offering that will be conducted concurrently with the conversion of Saucon Mutual. As of the report date, the Company is still working through the application process with the Department. The ultimate outcome of this proposed conversion is contingent upon approval by both the Department and the Company's members.

SUPPLEMENTARY INFORMATION

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors,
Saucon Mutual Insurance Company

We have audited the accompanying financial statements of Saucon Mutual Insurance Company, as of and for the years ended December 31, 2016, 2015 and 2014, and our report thereon dated March 30, 2017, which expressed an unqualified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information on pages 16 through 36, as required by the National Association of Insurance Commissioners, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Restriction on Use

This report is intended solely for the information and use of the Board of Directors and management of Saucon Mutual Insurance Company, the Pennsylvania Department of Insurance, and other state insurance departments to whose jurisdiction the Company is subject, and is not intended to be, and should not be, used by anyone other than these specified parties.

WithumSmith+Brown, PC

March 30, 2017



SUPPLEMENT FOR THE YEAR 2016 OF THE Saucon Mutual Insurance Company

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For The Year Ended December 31, 2016

(To Be Filed by April 1)

Of The Saucon Mutual Insurance Company
Address (City, State and Zip Code) Bethlehem, PA 18018
NAIC Group Code 00000 NAIC Company Code 17736 Employer's ID Number 24-0576030

The Investment Risks Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements.

Answer the following interrogatories by reporting the applicable U.S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

- 1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement \$ 20,000,684
2. Ten largest exposures to a single issuer/borrower/investment.

Table with 4 columns: Issuer, Description of Exposure, Amount, Percentage of Total Admitted Assets. Rows include Air Products & Chemicals Ord., Intel Ord., General Electric Ord., Pfizer Ord., Merck & Co Ord., Abbott Laboratories Ord., Abbvie Ord., PeaPack Gladstone Financial Ord., Weyerhaeuser Company, Berkshire Hathway CL B Ord.

- 3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC designation.

Table with 4 columns: Bonds (NAIC 1-6), Preferred Stocks (P/RP-1-6), Amount, Percentage. Rows 3.01-3.06.

- 4. Assets held in foreign investments:

- 4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []
4.02 Total admitted assets held in foreign investments \$ %
4.03 Foreign-currency-denominated investments \$ %
4.04 Insurance liabilities denominated in that same foreign currency \$ %

SUPPLEMENT FOR THE YEAR 2016 OF THE Saucon Mutual Insurance Company

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

5. Aggregate foreign investment exposure categorized by NAIC sovereign designation:		<u>1</u>	<u>2</u>	
5.01	Countries designated NAIC 1	\$		%
5.02	Countries designated NAIC 2	\$		%
5.03	Countries designated NAIC 3 or below	\$		%
6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign designation:		<u>1</u>	<u>2</u>	
Countries designated NAIC 1:				
6.01	Country 1:	\$		%
6.02	Country 2:	\$		%
Countries designated NAIC 2:				
6.03	Country 1:	\$		%
6.04	Country 2:	\$		%
Countries designated NAIC 3 or below:				
6.05	Country 1:	\$		%
6.06	Country 2:	\$		%
7. Aggregate unhedged foreign currency exposure		\$	<u>1</u>	<u>2</u>
8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign designation:			<u>1</u>	<u>2</u>
8.01	Countries designated NAIC 1	\$		%
8.02	Countries designated NAIC 2	\$		%
8.03	Countries designated NAIC 3 or below	\$		%
9. Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign designation:			<u>1</u>	<u>2</u>
Countries designated NAIC 1:				
9.01	Country 1:	\$		%
9.02	Country 2:	\$		%
Countries designated NAIC 2:				
9.03	Country 1:	\$		%
9.04	Country 2:	\$		%
Countries designated NAIC 3 or below:				
9.05	Country 1:	\$		%
9.06	Country 2:	\$		%
10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:			<u>1</u>	<u>2</u>
			<u>3</u>	<u>4</u>
10.01	<u>Issuer</u>	<u>NAIC Designation</u>	\$	%
10.02			\$	%
10.03			\$	%
10.04			\$	%
10.05			\$	%
10.06			\$	%
10.07			\$	%
10.08			\$	%
10.09			\$	%
10.10			\$	%

SUPPLEMENT FOR THE YEAR 2016 OF THE Saucon Mutual Insurance Company

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:
 11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets? Yes No
 If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.

	1	2	
11.02 Total admitted assets held in Canadian investments	\$	%
11.03 Canadian-currency-denominated investments	\$	%
11.04 Canadian-denominated insurance liabilities	\$	%
11.05 Unhedged Canadian currency exposure	\$	%

12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions.
 12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets?..... Yes No
 If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.

	1	2	3	
12.02 Aggregate statement value of investments with contractual sales restrictions	\$	%
Largest three investments with contractual sales restrictions:				
12.03	\$	%
12.04	\$	%
12.05	\$	%

13. Amounts and percentages of admitted assets held in the ten largest equity interests:
 13.01 Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? Yes No
 If response to 13.01 is yes, responses are not required for the remainder of Interrogatory 13.

	1 <u>Issuer</u>	2	3	
13.02 Vanguard TTL Mrkt Index CI Adm MF	\$	1,971,977	.....	9.9 %
13.03 Vanguard TTL Stk Mrkt Inx CI Adm MF	\$	1,859,813	.....	9.3 %
13.04 Vanguard Infr-Trm Inv Grd CI Adm MF	\$	1,178,277	.....	5.9 %
13.05 Air Products & Chemicals ORD	\$	862,920	.....	4.3 %
13.06 Vanguard Shl Inv Grd CI Admiral MF	\$	695,592	.....	3.5 %
13.07 Intel Ord	\$	616,590	.....	3.1 %
13.08 General Electric Ord	\$	600,400	.....	3.0 %
13.09 Pfizer Ord	\$	597,470	.....	3.0 %
13.10 Merck & Co Ord	\$	588,700	.....	2.9 %
13.11	\$	%

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:

14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []
 If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.

	1	2	3
14.02 Aggregate statement value of investments held in nonaffiliated, privately placed equities	\$ %
Largest three investments held in nonaffiliated, privately placed equities:			
14.03	\$ %
14.04	\$ %
14.05	\$ %

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []
 If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15.

	1	2	3
15.02 Aggregate statement value of investments held in general partnership interests	\$ %
Largest three investments in general partnership interests:			
15.03	\$ %
15.04	\$ %
15.05	\$ %

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:

16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []
 If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

	1	2	3
16.02	<u>Type (Residential, Commercial, Agricultural)</u> .....	.....	..... %
16.03 .....	\$ .....	.....	..... %
16.04 .....	\$ .....	.....	..... %
16.05 .....	\$ .....	.....	..... %
16.06 .....	\$ .....	.....	..... %
16.07 .....	\$ .....	.....	..... %
16.08 .....	\$ .....	.....	..... %
16.09 .....	\$ .....	.....	..... %
16.10 .....	\$ .....	.....	..... %
16.11 .....	\$ .....	.....	..... %

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

16. Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:

	Loans	
16.12 Construction loans	\$	%
16.13 Mortgage loans over 90 days past due	\$	%
16.14 Mortgage loans in the process of foreclosure	\$	%
16.15 Mortgage loans foreclosed	\$	%
16.16 Restructured mortgage loans	\$	%

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

Loan-to-Value	Residential		Commercial		Agricultural	
	1	2	3	4	5	6
17.01 above 95% \$	%	\$	%	\$	%	\$
17.02 91% to 95% \$	%	\$	%	\$	%	\$
17.03 81% to 90% \$	%	\$	%	\$	%	\$
17.04 71% to 80% \$	%	\$	%	\$	%	\$
17.05 below 70% \$	%	\$	%	\$	%	\$

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:

18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []
 If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

Largest five investments in any one parcel or group of contiguous parcels of real estate.

	Description 1	2	3	
18.02		\$		%
18.03		\$		%
18.04		\$		%
18.05		\$		%
18.06		\$		%

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans:

19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []
 If response to 19.01 is yes, responses are not required for the remainder of Interrogatory 19.

19.02 Aggregate statement value of investments held in mezzanine real estate loans: \$ 2 3 %
 Largest three investments held in mezzanine real estate loans:

19.03	\$	%
19.04	\$	%
19.05	\$	%

SUPPLEMENT FOR THE YEAR 2016 OF THE Saucon Mutual Insurance Company

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:						
	<u>At Year-End</u>			<u>At End of Each Quarter</u>		
	1	2		1st Qtr 3	2nd Qtr 4	3rd Qtr 5
20.01 Securities lending agreements (do not include assets held as collateral for such transactions)	\$		%	\$	\$	\$
20.02 Repurchase agreements	\$		%	\$	\$	\$
20.03 Reverse repurchase agreements	\$		%	\$	\$	\$
20.04 Dollar repurchase agreements	\$		%	\$	\$	\$
20.05 Dollar reverse repurchase agreements	\$		%	\$	\$	\$
21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps, and floors:						
	<u>Owned</u>			<u>Written</u>		
	1	2		3	4	
21.01 Hedging	\$		%	\$		%
21.02 Income generation	\$		%	\$		%
21.03 Other	\$		%	\$		%
22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:						
	<u>At Year-End</u>			<u>At End of Each Quarter</u>		
	1	2		1st Qtr 3	2nd Qtr 4	3rd Qtr 5
22.01 Hedging	\$		%	\$	\$	\$
22.02 Income generation	\$		%	\$	\$	\$
22.03 Replications	\$		%	\$	\$	\$
22.04 Other	\$		%	\$	\$	\$
23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:						
	<u>At Year-End</u>			<u>At End of Each Quarter</u>		
	1	2		1st Qtr 3	2nd Qtr 4	3rd Qtr 5
23.01 Hedging	\$		%	\$	\$	\$
23.02 Income generation	\$		%	\$	\$	\$
23.03 Replications	\$		%	\$	\$	\$
23.04 Other	\$		%	\$	\$	\$



SUPPLEMENT FOR THE YEAR 2015 OF THE Saucon Mutual Insurance Company

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For The Year Ended December 31, 2015

(To Be Filed by April 1)

Of The Saucon Mutual Insurance Company

Address (City, State and Zip Code) Bethlehem, PA 18018

NAIC Group Code 00000 NAIC Company Code 17736 Employer's ID Number 24-0576030

The Investment Risks Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements.

Answer the following interrogatories by reporting the applicable U. S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

- 1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement \$ 19,044,295
2. Ten largest exposures to a single issuer/borrower/investment.

Table with 4 columns: Issuer, Description of Exposure, Amount, Percentage of Total Admitted Assets. Lists top 10 exposures including Air Products & Chems Inc., Pfizer Inc., General Electric, Intel Corp., Merck & Co Inc., Abbott Labs, Abbvie Inc., AT&T, Proctor & Gamble Company, and L-3 Com Holdings Inc.

- 3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC designation.

Table with 4 columns: Bonds (NAIC 1-6), Preferred Stocks (P/RP-1-6), Amount, Percentage. Shows NAIC 1 with \$1,570,045 and 8.2%.

- 4. Assets held in foreign investments:

- 4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []
4.02 Total admitted assets held in foreign investments \$ %
4.03 Foreign-currency-denominated investments \$ %
4.04 Insurance liabilities denominated in that same foreign currency \$ %

SUPPLEMENT FOR THE YEAR 2015 OF THE Saucon Mutual Insurance Company

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

5. Aggregate foreign investment exposure categorized by NAIC sovereign designation:		<u>1</u>	<u>2</u>	
5.01	Countries designated NAIC 1.....	\$ .....	.....	%
5.02	Countries designated NAIC 2.....	\$ .....	.....	%
5.03	Countries designated NAIC 3 or below.....	\$ .....	.....	%
6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign designation:		<u>1</u>	<u>2</u>	
Countries designated NAIC 1:				
6.01	Country 1: .....	\$ .....	.....	%
6.02	Country 2: .....	\$ .....	.....	%
Countries designated NAIC 2:				
6.03	Country 1: .....	\$ .....	.....	%
6.04	Country 2: .....	\$ .....	.....	%
Countries designated NAIC 3 or below:				
6.05	Country 1: .....	\$ .....	.....	%
6.06	Country 2: .....	\$ .....	.....	%
7. Aggregate unhedged foreign currency exposure		<u>1</u>	<u>2</u>	
	\$	%
8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign designation:				
		<u>1</u>	<u>2</u>	
8.01	Countries designated NAIC 1.....	\$ .....	.....	%
8.02	Countries designated NAIC 2.....	\$ .....	.....	%
8.03	Countries designated NAIC 3 or below.....	\$ .....	.....	%
9. Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign designation:				
Countries designated NAIC 1:				
9.01	Country 1: .....	\$ .....	.....	%
9.02	Country 2: .....	\$ .....	.....	%
Countries designated NAIC 2:				
9.03	Country 1: .....	\$ .....	.....	%
9.04	Country 2: .....	\$ .....	.....	%
Countries designated NAIC 3 or below:				
9.05	Country 1: .....	\$ .....	.....	%
9.06	Country 2: .....	\$ .....	.....	%
10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:				
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
	<u>Issuer</u>	<u>NAIC Designation</u>		
10.01	.....	\$ .....	.....	%
10.02	.....	\$ .....	.....	%
10.03	.....	\$ .....	.....	%
10.04	.....	\$ .....	.....	%
10.05	.....	\$ .....	.....	%
10.06	.....	\$ .....	.....	%
10.07	.....	\$ .....	.....	%
10.08	.....	\$ .....	.....	%
10.09	.....	\$ .....	.....	%
10.10	.....	\$ .....	.....	%

SUPPLEMENT FOR THE YEAR 2015 OF THE Saucon Mutual Insurance Company

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:

11.01	Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets?.....	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.			
		<u>1</u>	<u>2</u>
11.02	Total admitted assets held in Canadian investments.....	\$ %
11.03	Canadian-currency-denominated investments	\$ %
11.04	Canadian-denominated insurance liabilities.....	\$ %
11.05	Unhedged Canadian currency exposure	\$ %

12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions.

12.01	Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets?.....	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.			

		<u>1</u>	<u>2</u>	<u>3</u>
12.02	Aggregate statement value of investments with contractual sales restrictions	\$ %	
Largest three investments with contractual sales restrictions:				
12.03	.....	\$ .....	..... %
12.04	.....	\$ .....	..... %
12.05	.....	\$ .....	..... %

13. Amounts and percentages of admitted assets held in the ten largest equity interests:

13.01	Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets?.....	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
If response to 13.01 is yes, responses are not required for the remainder of Interrogatory 13.			

		<u>1</u>	<u>2</u>	<u>3</u>
		<u>Issuer</u>		
13.02	Total Bond Mkt Index Fd Adm	\$	1,945,185	10.2 %
13.03	Total Stock Mkt Index Adm	\$	1,320,252	6.9 %
13.04	Inter-Term Invest-Gr Adm	\$	1,224,845	6.4 %
13.05	Air Products & Chems Inc.....	\$	780,660	4.1 %
13.06	Short-Term Invest-Gr Adm	\$	769,024	4.0 %
13.07	Pfizer Inc	\$	593,791	3.1 %
13.08	General Electric	\$	591,850	3.1 %
13.09	Intel Corp.....	\$	585,650	3.1 %
13.10	Merck & Co Inc	\$	528,200	2.8 %
13.11	Total Int'l Stock Index.....	\$	510,599	2.7 %

SUPPLEMENT FOR THE YEAR 2015 OF THE Saucon Mutual Insurance Company

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:

14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []
 If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.

	<u>1</u>		<u>2</u>		<u>3</u>	
14.02	Aggregate statement value of investments held in nonaffiliated, privately placed equities .....	\$	.....		.....	%
	Largest three investments held in nonaffiliated, privately placed equities:					
14.03	.....	\$	.....		.....	%
14.04	.....	\$	.....		.....	%
14.05	.....	\$	.....		.....	%

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []
 If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15.

	<u>1</u>		<u>2</u>		<u>3</u>	
15.02	Aggregate statement value of investments held in general partnership interests .....	\$	.....		.....	%
	Largest three investments in general partnership interests:					
15.03	.....	\$	.....		.....	%
15.04	.....	\$	.....		.....	%
15.05	.....	\$	.....		.....	%

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:

16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []
 If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

	<u>1</u>		<u>2</u>		<u>3</u>	
	<u>Type (Residential, Commercial, Agricultural)</u>					
16.02	.....	\$	.....		.....	%
16.03	.....	\$	.....		.....	%
16.04	.....	\$	.....		.....	%
16.05	.....	\$	.....		.....	%
16.06	.....	\$	.....		.....	%
16.07	.....	\$	.....		.....	%
16.08	.....	\$	.....		.....	%
16.09	.....	\$	.....		.....	%
16.10	.....	\$	.....		.....	%
16.11	.....	\$	.....		.....	%

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

16. Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:

	Loans	
16.12 Construction loans	\$	%
16.13 Mortgage loans over 90 days past due	\$	%
16.14 Mortgage loans in the process of foreclosure	\$	%
16.15 Mortgage loans foreclosed	\$	%
16.16 Restructured mortgage loans	\$	%

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

Loan-to-Value	Residential		Commercial		Agricultural	
	1	2	3	4	5	6
17.01 above 95%	\$	%	\$	%	\$	%
17.02 91% to 95%	\$	%	\$	%	\$	%
17.03 81% to 90%	\$	%	\$	%	\$	%
17.04 71% to 80%	\$	%	\$	%	\$	%
17.05 below 70%	\$	%	\$	%	\$	%

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:

18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets? Yes No
 If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

Largest five investments in any one parcel or group of contiguous parcels of real estate.

	Description 1	2	3	
18.02		\$		%
18.03		\$		%
18.04		\$		%
18.05		\$		%
18.06		\$		%

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans:

19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's total admitted assets? Yes No
 If response to 19.01 is yes, responses are not required for the remainder of Interrogatory 19.

19.02 Aggregate statement value of investments held in mezzanine real estate loans: \$ %
 Largest three investments held in mezzanine real estate loans:

19.03		\$		%
19.04		\$		%
19.05		\$		%

SUPPLEMENT FOR THE YEAR 2015 OF THE Saucon Mutual Insurance Company

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

	<u>At Year-end</u>			<u>At End of Each Quarter</u>		
	<u>1</u>	<u>2</u>		<u>1st Qtr</u> <u>3</u>	<u>2nd Qtr</u> <u>4</u>	<u>3rd Qtr</u> <u>5</u>
20.01 Securities lending agreements (do not include assets held as collateral for such transactions)	\$		%	\$	\$	\$
20.02 Repurchase agreements	\$		%	\$	\$	\$
20.03 Reverse repurchase agreements	\$		%	\$	\$	\$
20.04 Dollar repurchase agreements	\$		%	\$	\$	\$
20.05 Dollar reverse repurchase agreements	\$		%	\$	\$	\$

21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps, and floors:

	<u>Owned</u>			<u>Written</u>		
	<u>1</u>	<u>2</u>		<u>3</u>	<u>4</u>	
21.01 Hedging	\$		%	\$		%
21.02 Income generation	\$		%	\$		%
21.03 Other	\$		%	\$		%

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

	<u>At Year-end</u>			<u>At End of Each Quarter</u>		
	<u>1</u>	<u>2</u>		<u>1st Qtr</u> <u>3</u>	<u>2nd Qtr</u> <u>4</u>	<u>3rd Qtr</u> <u>5</u>
22.01 Hedging	\$		%	\$	\$	\$
22.02 Income generation	\$		%	\$	\$	\$
22.03 Replications	\$		%	\$	\$	\$
22.04 Other	\$		%	\$	\$	\$

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:

	<u>At Year-end</u>			<u>At End of Each Quarter</u>		
	<u>1</u>	<u>2</u>		<u>1st Qtr</u> <u>3</u>	<u>2nd Qtr</u> <u>4</u>	<u>3rd Qtr</u> <u>5</u>
23.01 Hedging	\$		%	\$	\$	\$
23.02 Income generation	\$		%	\$	\$	\$
23.03 Replications	\$		%	\$	\$	\$
23.04 Other	\$		%	\$	\$	\$



SUPPLEMENT FOR THE YEAR 2014 OF THE Saucon Mutual Insurance Company

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For The Year Ended December 31, 2014

(To Be Filed by April 1)

Of The Saucon Mutual Insurance Company

Address (City, State and Zip Code) Bethlehem, PA 18018

NAIC Group Code 00000 NAIC Company Code 17736 Employer's ID Number 24-0576030

The Investment Risks Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements.

Answer the following interrogatories by reporting the applicable U. S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

- 1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement. \$ 20,157,252
2. Ten largest exposures to a single issuer/borrower/investment.

Table with 4 columns: Issuer, Description of Exposure, Amount, Percentage of Total Admitted Assets. Rows include AIR PRODUCTS & CHEMS INC, INTEL CORP, PFIZER INC, MERCK & CO INC, ABBOTT LABS, GENERAL ELECTRIC, ABBVIE INC, KRAFT FOODS GRP INC, WEYERHAEUSER CO, EBAY INC COM.

- 3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC designation.

Table with 4 columns: Bonds, Preferred Stocks, Amount, Percentage. Rows include NAIC 1, NAIC 2, NAIC 3, NAIC 4, NAIC 5, NAIC 6, P/RP-1, P/RP-2, P/RP-3, P/RP-4, P/RP-5, P/RP-6.

- 4. Assets held in foreign investments:

- 4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []
4.02 Total admitted assets held in foreign investments \$ %
4.03 Foreign-currency-denominated investments \$ %
4.04 Insurance liabilities denominated in that same foreign currency \$ %

SUPPLEMENT FOR THE YEAR 2014 OF THE Saucon Mutual Insurance Company

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

5. Aggregate foreign investment exposure categorized by NAIC sovereign designation:		<u>1</u>	<u>2</u>	
5.01	Countries designated NAIC 1	\$		%
5.02	Countries designated NAIC 2	\$		%
5.03	Countries designated NAIC 3 or below	\$		%
6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign designation:		<u>1</u>	<u>2</u>	
Countries designated NAIC 1:				
6.01	Country 1:	\$		%
6.02	Country 2:	\$		%
Countries designated NAIC 2:				
6.03	Country 1:	\$		%
6.04	Country 2:	\$		%
Countries designated NAIC 3 or below:				
6.05	Country 1:	\$		%
6.06	Country 2:	\$		%
7. Aggregate unhedged foreign currency exposure		\$	<u>1</u>	<u>2</u>
8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign designation:				
			<u>1</u>	<u>2</u>
8.01	Countries designated NAIC 1	\$		%
8.02	Countries designated NAIC 2	\$		%
8.03	Countries designated NAIC 3 or below	\$		%
9. Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign designation:				
Countries designated NAIC 1:				
9.01	Country 1:	\$	<u>1</u>	<u>2</u>
9.02	Country 2:	\$		
Countries designated NAIC 2:				
9.03	Country 1:	\$		
9.04	Country 2:	\$		
Countries designated NAIC 3 or below:				
9.05	Country 1:	\$		
9.06	Country 2:	\$		
10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:				
	<u>1</u>		<u>2</u>	
	<u>Issuer</u>		<u>NAIC Designation</u>	
10.01		\$		%
10.02		\$		%
10.03		\$		%
10.04		\$		%
10.05		\$		%
10.06		\$		%
10.07		\$		%
10.08		\$		%
10.09		\$		%
10.10		\$		%

SUPPLEMENT FOR THE YEAR 2014 OF THE Saucon Mutual Insurance Company

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:
 11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets?..... Yes No
 If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.

	<u>1</u>	<u>2</u>	
11.02 Total admitted assets held in Canadian investments.....	\$	%
11.03 Canadian-currency-denominated investments	\$	%
11.04 Canadian-denominated insurance liabilities.....	\$	%
11.05 Unhedged Canadian currency exposure	\$	%

12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions.
 12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets?..... Yes No
 If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.

	<u>1</u>	<u>2</u>	<u>3</u>	
12.02 Aggregate statement value of investments with contractual sales restrictions	\$	%
Largest three investments with contractual sales restrictions:				
12.03	\$	%
12.04	\$	%
12.05	\$	%

13. Amounts and percentages of admitted assets held in the ten largest equity interests:
 13.01 Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets?..... Yes No
 If response to 13.01 is yes, responses are not required for the remainder of Interrogatory 13.

	<u>1</u>	<u>2</u>	<u>3</u>	
	<u>Issuer</u>			
13.02 INTER-TERM INVEST-GR ADM.....	\$	2,107,625	.....	10.5 %
13.03 PRIMECAP FUND ADM.....	\$	2,095,663	.....	10.4 %
13.04 TOTAL STOCK MKT INDEX ADM.....	\$	915,950	.....	4.5 %
13.05 AIR PRODUCTS & CHEMS INC.....	\$	865,380	.....	4.3 %
13.06 INTEL CORP.....	\$	616,930	.....	3.1 %
13.07 TOTAL INT'L STOCK INDEX.....	\$	584,563	.....	2.9 %
13.08 PFIZER INC.....	\$	573,004	.....	2.8 %
13.09 MERCK & CO INC.....	\$	567,900	.....	2.8 %
13.10 ABBOTT LABS.....	\$	495,220	.....	2.5 %
13.11 WINDSOR II FUND ADM.....	\$	448,440	.....	2.2 %

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:

14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? Yes No

If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.

	<u>1</u>	<u>2</u>	<u>3</u>
14.02 Aggregate statement value of investments held in nonaffiliated, privately placed equities	\$ %
Largest three investments held in nonaffiliated, privately placed equities:			
14.03	\$ %
14.04	\$ %
14.05	\$ %

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets? Yes No

If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15.

	<u>1</u>	<u>2</u>	<u>3</u>
15.02 Aggregate statement value of investments held in general partnership interests	\$ %
Largest three investments in general partnership interests:			
15.03	\$ %
15.04	\$ %
15.05	\$ %

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:

16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets? Yes No

If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

	<u>1</u>	<u>2</u>	<u>3</u>
	<u>Type (Residential, Commercial, Agricultural)</u>		
16.02	\$ %
16.03	\$ %
16.04	\$ %
16.05	\$ %
16.06	\$ %
16.07	\$ %
16.08	\$ %
16.09	\$ %
16.10	\$ %
16.11	\$ %

SUPPLEMENT FOR THE YEAR 2014 OF THE Saucon Mutual Insurance Company

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

16. Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:

	Loans	
16.12 Construction loans	\$	%
16.13 Mortgage loans over 90 days past due	\$	%
16.14 Mortgage loans in the process of foreclosure	\$	%
16.15 Mortgage loans foreclosed	\$	%
16.16 Restructured mortgage loans	\$	%

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

Loan-to-Value	Residential		Commercial		Agricultural	
	1	2	3	4	5	6
17.01 above 95%	\$	%	\$	%	\$	%
17.02 91% to 95%	\$	%	\$	%	\$	%
17.03 81% to 90%	\$	%	\$	%	\$	%
17.04 71% to 80%	\$	%	\$	%	\$	%
17.05 below 70%	\$	%	\$	%	\$	%

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:

18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []
 If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

Largest five investments in any one parcel or group of contiguous parcels of real estate.

	Description	1	2	3	
18.02			\$		%
18.03			\$		%
18.04			\$		%
18.05			\$		%
18.06			\$		%

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans:

19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []
 If response to 19.01 is yes, responses are not required for the remainder of Interrogatory 19.

19.02	Aggregate statement value of investments held in mezzanine real estate loans:	1	\$	2	3	%
Largest three investments held in mezzanine real estate loans:						
19.03			\$			%
19.04			\$			%
19.05			\$			%

SUPPLEMENT FOR THE YEAR 2014 OF THE Saucon Mutual Insurance Company

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

	<u>At Year-end</u>			<u>At End of Each Quarter</u>		
	<u>1</u>	<u>2</u>		<u>1st Qtr</u> <u>3</u>	<u>2nd Qtr</u> <u>4</u>	<u>3rd Qtr</u> <u>5</u>
20.01 Securities lending agreements (do not include assets held as collateral for such transactions)	\$	%	\$	\$	\$
20.02 Repurchase agreements	\$	%	\$	\$	\$
20.03 Reverse repurchase agreements	\$	%	\$	\$	\$
20.04 Dollar repurchase agreements	\$	%	\$	\$	\$
20.05 Dollar reverse repurchase agreements	\$	%	\$	\$	\$

21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps, and floors:

	<u>Owned</u>			<u>Written</u>	
	<u>1</u>	<u>2</u>		<u>3</u>	<u>4</u>
21.01 Hedging	\$	%	\$
21.02 Income generation	\$	%	\$
21.03 Other	\$	%	\$

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

	<u>At Year-end</u>			<u>At End of Each Quarter</u>		
	<u>1</u>	<u>2</u>		<u>1st Qtr</u> <u>3</u>	<u>2nd Qtr</u> <u>4</u>	<u>3rd Qtr</u> <u>5</u>
22.01 Hedging	\$	%	\$	\$	\$
22.02 Income generation	\$	%	\$	\$	\$
22.03 Replications	\$	%	\$	\$	\$
22.04 Other	\$	%	\$	\$	\$

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:

	<u>At Year-end</u>			<u>At End of Each Quarter</u>		
	<u>1</u>	<u>2</u>		<u>1st Qtr</u> <u>3</u>	<u>2nd Qtr</u> <u>4</u>	<u>3rd Qtr</u> <u>5</u>
23.01 Hedging	\$	%	\$	\$	\$
23.02 Income generation	\$	%	\$	\$	\$
23.03 Replications	\$	%	\$	\$	\$
23.04 Other	\$	%	\$	\$	\$

ANNUAL STATEMENT FOR THE YEAR 2016 OF THE Saucon Mutual Insurance Company

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
	1 Amount	2 Percentage	3 Amount	4 Securities Lending Reinvested Collateral Amount	5 Total (Col. 3+4) Amount	6 Percentage
1. Bonds:						
1.1 U.S. treasury securities	199,674	1.001	199,674		199,674	1.001
1.2 U.S. government agency obligations (excluding mortgage-backed securities):						
1.21 Issued by U.S. government agencies						
1.22 Issued by U.S. government sponsored agencies						
1.3 Non-U.S. government (including Canada, excluding mortgage-backed securities)						
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:						
1.41 States, territories and possessions general obligations						
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations						
1.43 Revenue and assessment obligations	99,882	0.501	99,882		99,882	0.501
1.44 Industrial development and similar obligations						
1.5 Mortgage-backed securities (includes residential and commercial MBS):						
1.51 Pass-through securities:						
1.511 Issued or guaranteed by GNMA						
1.512 Issued or guaranteed by FNMA and FHLMC						
1.513 All other						
1.52 CMOs and REMICs:						
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA						
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521						
1.523 All other						
2. Other debt and other fixed income securities (excluding short term):						
2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities)	305,758	1.533	305,758		305,758	1.533
2.2 Unaffiliated non-U.S. securities (including Canada)						
2.3 Affiliated securities						
3. Equity interests:						
3.1 Investments in mutual funds	6,345,972	31.812	6,345,972		6,345,972	31.812
3.2 Preferred stocks:						
3.21 Affiliated						
3.22 Unaffiliated						
3.3 Publicly traded equity securities (excluding preferred stocks):						
3.31 Affiliated						
3.32 Unaffiliated	12,012,656	60.219	12,012,656		12,012,656	60.219
3.4 Other equity securities:						
3.41 Affiliated						
3.42 Unaffiliated						
3.5 Other equity interests including tangible personal property under lease:						
3.51 Affiliated						
3.52 Unaffiliated						
4. Mortgage loans:						
4.1 Construction and land development						
4.2 Agricultural						
4.3 Single family residential properties						
4.4 Multifamily residential properties						
4.5 Commercial loans						
4.6 Mezzanine real estate loans						
5. Real estate investments:						
5.1 Property occupied by company						
5.2 Property held for production of income (including \$ of property acquired in satisfaction of debt)						
5.3 Property held for sale (including \$ property acquired in satisfaction of debt)						
6. Contract loans						
7. Derivatives						
8. Receivables for securities						
9. Securities Lending (Line 10, Asset Page reinvested collateral)				XXX	XXX	XXX
10. Cash, cash equivalents and short-term investments	984,207	4.934	984,207		984,207	4.934
11. Other invested assets						
12. Total invested assets	19,948,148	100.000	19,948,148		19,948,148	100.000

ANNUAL STATEMENT FOR THE YEAR 2015 OF THE Saucon Mutual Insurance Company

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
	1 Amount	2 Percentage	3 Amount	4 Securities Lending Reinvested Collateral Amount	5 Total (Col. 3+4) Amount	6 Percentage
1. Bonds:						
1.1 U.S. treasury securities	199,302	1.053	199,302		199,302	1.053
1.2 U.S. government agency obligations (excluding mortgage-backed securities):						
1.21 Issued by U.S. government agencies						
1.22 Issued by U.S. government sponsored agencies						
1.3 Non-U.S. government (including Canada, excluding mortgage-backed securities)						
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:						
1.41 States, territories and possessions general obligations						
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations						
1.43 Revenue and assessment obligations	49,822	0.263	49,822		49,822	0.263
1.44 Industrial development and similar obligations						
1.5 Mortgage-backed securities (includes residential and commercial MBS):						
1.51 Pass-through securities:						
1.511 Issued or guaranteed by GNMA						
1.512 Issued or guaranteed by FNMA and FHLMC						
1.513 All other						
1.52 CMOs and REMICs:						
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA						
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521						
1.523 All other						
2. Other debt and other fixed income securities (excluding short term):						
2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities)	306,397	1.618	306,397		306,397	1.618
2.2 Unaffiliated non-U.S. securities (including Canada)						
2.3 Affiliated securities						
3. Equity interests:						
3.1 Investments in mutual funds	6,531,186	34.498	6,531,186		6,531,186	34.498
3.2 Preferred stocks:						
3.21 Affiliated						
3.22 Unaffiliated						
3.3 Publicly traded equity securities (excluding preferred stocks):						
3.31 Affiliated						
3.32 Unaffiliated	10,501,065	55.468	10,501,065		10,501,065	55.468
3.4 Other equity securities:						
3.41 Affiliated						
3.42 Unaffiliated						
3.5 Other equity interests including tangible personal property under lease:						
3.51 Affiliated						
3.52 Unaffiliated						
4. Mortgage loans:						
4.1 Construction and land development						
4.2 Agricultural						
4.3 Single family residential properties						
4.4 Multifamily residential properties						
4.5 Commercial loans						
4.6 Mezzanine real estate loans						
5. Real estate investments:						
5.1 Property occupied by company						
5.2 Property held for production of income (including \$ _____ of property acquired in satisfaction of debt)						
5.3 Property held for sale (including \$ _____ property acquired in satisfaction of debt)						
6. Contract loans						
7. Derivatives						
8. Receivables for securities						
9. Securities Lending (Line 10, Asset Page reinvested collateral)				XXX	XXX	XXX
10. Cash, cash equivalents and short-term investments	1,344,144	7.100	1,344,144		1,344,144	7.100
11. Other invested assets						
12. Total invested assets	18,931,916	100.000	18,931,916		18,931,916	100.000

ANNUAL STATEMENT FOR THE YEAR 2014 OF THE Saucon Mutual Insurance Company

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
	1 Amount	2 Percentage	3 Amount	4 Securities Lending Reinvested Collateral Amount	5 Total (Col. 3+4) Amount	6 Percentage
1. Bonds:						
1.1 U.S. treasury securities	99,989	0.500	99,989		99,989	0.500
1.2 U.S. government agency obligations (excluding mortgage-backed securities):						
1.21 Issued by U.S. government agencies						
1.22 Issued by U.S. government sponsored agencies						
1.3 Non-U.S. government (including Canada, excluding mortgage-backed securities)						
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:						
1.41 States, territories and possessions general obligations						
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations						
1.43 Revenue and assessment obligations	149,665	0.748	149,665		149,665	0.748
1.44 Industrial development and similar obligations						
1.5 Mortgage-backed securities (includes residential and commercial MBS):						
1.51 Pass-through securities:						
1.511 Issued or guaranteed by GNMA						
1.512 Issued or guaranteed by FNMA and FHLMC						
1.513 All other						
1.52 CMOs and REMICs:						
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA						
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521						
1.523 All other						
2. Other debt and other fixed income securities (excluding short term):						
2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities)	406,890	2.035	406,890		406,890	2.035
2.2 Unaffiliated non-U.S. securities (including Canada)						
2.3 Affiliated securities						
3. Equity interests:						
3.1 Investments in mutual funds	7,086,940	35.442	7,086,940		7,086,940	35.442
3.2 Preferred stocks:						
3.21 Affiliated						
3.22 Unaffiliated						
3.3 Publicly traded equity securities (excluding preferred stocks):						
3.31 Affiliated						
3.32 Unaffiliated	10,790,926	53.965	10,790,926		10,790,926	53.965
3.4 Other equity securities:						
3.41 Affiliated						
3.42 Unaffiliated						
3.5 Other equity interests including tangible personal property under lease:						
3.51 Affiliated						
3.52 Unaffiliated						
4. Mortgage loans:						
4.1 Construction and land development						
4.2 Agricultural						
4.3 Single family residential properties						
4.4 Multifamily residential properties						
4.5 Commercial loans						
4.6 Mezzanine real estate loans						
5. Real estate investments:						
5.1 Property occupied by company						
5.2 Property held for production of income (including \$ _____ of property acquired in satisfaction of debt)						
5.3 Property held for sale (including \$ _____ property acquired in satisfaction of debt)						
6. Contract loans						
7. Derivatives						
8. Receivables for securities						
9. Securities Lending (Line 10, Asset Page reinvested collateral)				XXX	XXX	XXX
10. Cash, cash equivalents and short-term investments	1,461,642	7.310	1,461,642		1,461,642	7.310
11. Other invested assets						
12. Total invested assets	19,996,052	100.000	19,996,052		19,996,052	100.000

March 30, 2017

Board of Directors
Saucon Mutual Insurance Company
528 North New Street, 4th Floor
Bethlehem, PA 18018

Dear Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Saucon Mutual Insurance Company (the "Company") as of and for the years ended December 31, 2016, 2015, and 2014, and have issued our report dated March 30, 2017. In connection therewith, we advise you as follows:

- A) We are independent certified public accountants with respect to the Company and conform to the standards of the accounting profession as contained in the Code of Professional Conduct and Pronouncements of the American Institute of Certified Public Accountants, and the Rules of Professional Conduct of the New Jersey State Board of Accountancy.
- B) The following is the background and experience of the Engagement and Concurring Partner who are individually independent of Saucon Mutual Insurance Company:

Richard Coyne, CPA - Engagement Partner - Rick is a Partner with WithumSmith+Brown (WS+B), Certified Public Accountants and Consultants in Princeton, NJ. In his position, Rick has more than 25 years of professional experience, more than 15 years in insurance. As Engagement Partner, he is responsible for planning and executing the audit and managing personnel. Rick holds a BA in Economics and Business Administration from Ursinus College. He is a member of the American and Pennsylvania Institutes of Certified Public Accountants (AICPA and PICPA) and the New Jersey Society of Certified Public Accountants.

Edward A. Hofma, CPA – Concurring Partner – Ed is a partner with WithumSmith+Brown (WS+B), Certified Public Accountants and Consultants. Ed has 38 years of professional experience, including more than 35 years of experience in the insurance industry. As concurring partner, he is responsible for performing a second partner review of the financial statements and related audit documentation. Ed holds a BS in Business Administration from the University of Central Florida. He is a member of the AICPA and FICPA.

- C) We understand that the Company intends to file its audited financial statements and our report thereon with the Pennsylvania Insurance Department ("Insurance Department") and that the Insurance Commissioner ("Commissioner") will be relying on that information in monitoring and regulating the financial condition of the Company.

While we understand that an objective of issuing a report on the financial statements is to satisfy regulatory requirements, our audit was not planned to satisfy all objectives or responsibilities of insurance regulators. In this context, the Company and the Insurance Commissioner should understand that the objective of an audit of financial statements in accordance with auditing standards generally accepted in the United States of America is to form an opinion and issue a report on whether the financial statements present fairly, in all material respects, the balance sheets; results of operations; and its cash flows in conformity with accounting practices prescribed or permitted by the Insurance Department. Consequently, under auditing standards generally accepted in the United States of America, we have the responsibility, within the inherent limitations of the auditing process, to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud,

and to exercise due professional care in the conduct of the audit. The Company is not required to have, nor were we engaged to perform, an audit of internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. The concept of selective testing of the data being audited, which involves judgment both as to the number of transactions to be audited and the areas to be tested, has been generally accepted as a valid and sufficient basis for an auditor to express an opinion on financial statements. Audit procedures that are effective for detecting errors, if they exist, may be ineffective for detecting irregularities resulting from fraud.

Because of the characteristics of irregularities, particularly those involving forgery and collusion, a properly designed and executed audit may not detect a material irregularity. In addition, an audit does not address the possibility that material errors or irregularities may occur in the future. Also, our use of professional judgment and the assessment of materiality for the purpose of our audit means that matters may exist that would have been assessed differently by insurance commissioners.

It is the responsibility of the management of the Company to adopt sound accounting policies, to maintain an adequate and effective system of accounts, and to establish and maintain internal control that will, among other things, provide reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting practices prescribed or permitted by the Insurance Department.

The Commissioner should exercise due diligence to obtain whatever other information that may be necessary for the purpose of monitoring and regulating the statutory financial position of insurers and should not rely solely on the independent auditors' report.

- D) We will retain the workpapers prepared in the conduct of our audit for seven calendar years from the date of the audit report or until the Insurance Department has filed a Report of Examination covering 2016, whichever is longer, and, on instructions from the Company, will make them available for review by the Insurance Department.
- E) WithumSmith+Brown has served in that capacity with respect to the Company since 2000, is properly licensed by the Commonwealth of Pennsylvania and is a member in good standing with the American Institute of Certified Public Accountants.
- F) To the best of our knowledge and belief, we are in compliance with the requirements of Section 7 of the NAIC's *Model Rule (Regulation) Requiring Annual Audited Financial Reports* regarding qualifications of independent certified public accountants.

This letter is furnished solely for filing with the Insurance Department and should not be used for any other purpose.

Sincerely,



WithumSmith+Brown, PC

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Saucon Holding Company

Subscription Agreement for First Stage Offering

THE SHARES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR THE SECURITIES LAWS OF ANY STATE OR ANY OTHER JURISDICTION. THERE ARE FURTHER RESTRICTIONS ON THE TRANSFERABILITY OF THE SHARES DESCRIBED HEREIN.

THE PURCHASE OF THE SHARES INVOLVES A HIGH DEGREE OF RISK AND SHOULD BE CONSIDERED ONLY BY PERSONS WHO CAN BEAR THE RISK OF THE LOSS OF THEIR ENTIRE INVESTMENT.

ANY ELIGIBLE MEMBER OF SAUCON MUTUAL INSURANCE COMPANY WHO SUBSCRIBES FOR SHARES IN THIS FIRST STAGE OFFERING WILL NOT BE ELIGIBLE TO RECEIVE THE MEMBER COMPENSATION DESCRIBED IN THE PLAN OF CONVERSION.

Saucon Holding Company
74 West Broad Street, Suite 300
Bethlehem PA 18018

This offering is made in accordance with the Third Amended and Restated Alternative Plan of Conversion of Saucon Mutual Insurance Company dated as of March 22, 2017 (the "**Plan of Conversion**"). The undersigned understands that pursuant to the First Stage Offering (as that term is defined in the Plan of Conversion), Saucon Holding Company, a Pennsylvania corporation (the "**Company**"), is offering, in a private placement, 3,250,000 shares of its common stock, par value \$0.01 per share (the "**Shares**"). The undersigned further understands that the offering is being made without registration of the Shares under the Securities Act of 1933, as amended (the "**Securities Act**"), or any securities law of any state of the United States or of any other jurisdiction, and is being made pursuant to the exemption set forth in Rule 506(b) under the Securities Act. Any capitalized term used but not defined in this subscription agreement (the "**Subscription Agreement**") shall have the meaning ascribed to it in the Plan of Conversion.

1. **Subscription.** Subject to the terms and conditions hereof and the provisions of the Plan of Conversion, the undersigned hereby irrevocably subscribes for the number of Shares set forth on the signature page to this Agreement for a purchase price of \$1.00 per share, which is payable as described in **Section 4** hereof. The undersigned acknowledges that the Shares will be subject to restrictions on transfer as set forth in this Subscription Agreement. Furthermore, the undersigned understands that, as a condition to the Company's acceptance of this subscription, the undersigned must complete and execute a Confidential Subscriber Questionnaire in the form of **Exhibit A** attached hereto (the "**Questionnaire**"), and the undersigned may additionally be required to execute a joinder to that certain Shareholder Agreement of Saucon Holding Company (the "**Shareholder Agreement**").

2. **Acceptance of Subscription and Issuance of Shares.** It is understood and agreed that the Company shall have the right to accept or reject this subscription, in whole or in part, as

provided in, and in accordance with the terms of, Section VII.A.1 of the Plan of Conversion and that the same shall be deemed to be accepted by the Company only when it is signed by a duly authorized officer of the Company and delivered to the undersigned at the Closing referred to in **Section 3** hereof.

3. The Closing. The closing of the purchase and sale of the Shares (the “**Closing**”) shall take place at the offices of Saucon Mutual Insurance Company (which shall become known as Saucon Insurance Company on the Effective Date) on the Effective Date, or at such other time and place as the Company may designate by notice to the undersigned.

4. Payment for Shares. The undersigned shall tender to the Company the subscription price for the Shares that the undersigned is subscribing for, simultaneously with the delivery of the undersigned’s completed and executed Subscription Agreement and Questionnaire and, if applicable, the undersigned’s joinder to the Shareholder Agreement. The undersigned must pay that tendered amount by cashier’s check made payable to Saucon Mutual Insurance Company,” in the amount set forth on the signature page to this Agreement. Promptly following the Effective Date, if the undersigned’s subscription is accepted, the Company shall deliver certificates representing the Shares to the undersigned at the Closing bearing an appropriate legend referring to the fact that the Shares were sold in reliance upon an exemption from registration under the Securities Act. In the event that this subscription is rejected in whole or in part, the Company shall promptly return all or the applicable portion, as the case may be, of the subscription price to the undersigned with interest, and this Subscription Agreement shall thereafter have no force or effect except with respect to the portion, if any, of this subscription that is accepted by the Company.

5. Shareholder Agreement. The undersigned acknowledges and agrees that if the undersigned subscribes for 5% or more of the total number of Shares (in which case the undersigned shall be a “**5% Subscriber**”), then as a condition to the effectiveness of the undersigned’s subscription hereunder, the undersigned will be required to join and become a party to and become bound by the Shareholder Agreement by executing and delivering a joinder to the Shareholder Agreement. If the undersigned is a 5% Subscriber, the undersigned acknowledges that he, she, it or they has or have received a copy of the Shareholder Agreement and has reviewed it, and that that agreement, among other things: (i) imposes restrictions on transfer of the Shares; (ii) requires a shareholder who is party to the Shareholder Agreement to sell his, her, its or their shares to the Company at the price and on the terms specified in the Shareholder Agreement under certain circumstances; and (iii) imposes certain other covenants upon each shareholder party thereto, including covenants to hold the Company’s confidential information in confidence, and to enable the Company to take actions and make filings as may be required under the Pennsylvania insurance laws. Any subscription from a person who would become a 5% Subscriber will also be conditioned upon approval of that subscription by the Pennsylvania Insurance Department.

6. Representations and Warranties of the Company. As of the Closing, the Company represents and warrants that the Company is duly formed and validly existing under the laws of the Commonwealth of Pennsylvania, with full power and authority to conduct its business, and that the Shares have been duly authorized and, when issued, delivered and paid for in the manner set forth in this Subscription Agreement, will be validly issued, fully paid and nonassessable.

The parties acknowledge and agree that in accordance with the Plan of Conversion, concurrently with the transactions contemplated by this Agreement, Stephen Bajan will become the Chief Executive Officer of the Company. Consequently, the parties acknowledge and agree that Stephen Bajan is authorized and directed to execute and deliver this Subscription Agreement on behalf of the Company.

7. Representations and Warranties of the Undersigned. The undersigned hereby represents and warrants to and covenants with the Company that:

(a) General.

(i) The undersigned has all requisite authority (and in the case of an individual, the capacity) to purchase the Shares, enter into this Subscription Agreement and, if the undersigned is a 5% Subscriber, the Shareholder Agreement, and to perform all the obligations required to be performed by the undersigned hereunder and thereunder, and such purchase will not contravene any law, rule or regulation binding on the undersigned or any investment guideline or restriction applicable to the undersigned.

(ii) The undersigned is not acquiring the Shares as a nominee or agent or otherwise for any other person.

(iii) The undersigned will comply with all applicable laws and regulations in effect in any jurisdiction in which the undersigned purchases or sells Shares and obtain any consent, approval or permission required for such purchases or sales under the laws and regulations of any jurisdiction to which the undersigned is subject or in which the undersigned makes such purchases or sales, and the Company shall have no responsibility therefor.

(iv) If the undersigned is a 5% Subscriber, the undersigned understands and agrees that he, she, it or they will be bound by, and subject to the terms and conditions of, the Shareholder Agreement and that moreover, approval of any subscription by a 5% Subscriber is conditioned upon approval of that subscription by the Pennsylvania Insurance Department. If the undersigned would become a holder of 10% or more of the Shares: (A) the subscription will also be conditioned upon the approval by the Pennsylvania Insurance Department of a Form A filed by such persons, and (B) the subscriber will be subject to such informational, notice, periodic filing and other requirements as are applicable to a holder of 10% or more of the voting capital stock of an insurance holding company pursuant to the Pennsylvania insurance laws.

(b) Information Concerning the Company.

(i) The undersigned has received a copy of and carefully reviewed the Plan of Conversion and the Member Documents Package, including the financial information and risk factors set forth therein. The undersigned has not been furnished any offering literature other than the Member Documents Package.

(ii) The undersigned is a policyholder of Saucon Mutual, and the signature page to this Subscription Agreement has been completed and executed using the same name or names under which the undersigned holds his, her, its or their Saucon Mutual policy (for example, if the undersigned's Saucon Mutual policy is held in the name of Mr. X and Mrs. Y,

then this subscription cannot be accepted unless this Subscription Agreement has been executed by both Mr. X and Mrs. Y. See the definition of "Eligible Member" in the Plan of Conversion.)

(iii) The undersigned understands and accepts that the purchase of the Shares involves various risks, including the risks outlined in this Subscription Agreement and in the Member Documents Package. The undersigned represents that he, she, it or they is or are able to bear any loss associated with an investment in the Shares.

(iv) The undersigned acknowledges that the Company has been organized to become the holding company of Saucon Insurance Company effective upon the closing under the Plan of Conversion. The undersigned confirms that he, she, it or they is or are not relying on any communication (written or oral) of the Company, Saucon Mutual or their respective directors, officers and agents, as investment advice or as a recommendation to purchase the Shares. Neither the Company, Saucon Mutual nor their respective directors, officers and agents is acting or has acted as an advisor to the undersigned in deciding to invest in the Shares.

(v) The undersigned understands that, unless the undersigned notifies the Company in writing to the contrary at or before the Closing, each of the undersigned's representations and warranties contained in this Subscription Agreement will be deemed to have been reaffirmed and confirmed as of the Closing, taking into account all information received by the undersigned.

(vi) The undersigned acknowledges that if for any reason this private placement is abandoned prior to the Effective Date, this Subscription Agreement and the Shareholder Agreement shall thereafter have no force or effect and the Company shall return the previously paid subscription price of the Shares to the undersigned with interest.

(vii) The undersigned understands that no federal or state agency has passed upon the merits or risks of an investment in the Shares or made any finding or determination concerning the fairness or advisability of this investment.

(viii) The undersigned and/or his, her, its or their purchaser representative and advisor(s) have had a reasonable opportunity, at the undersigned's expense, to ask questions of and receive information and answers from representatives of the Company concerning the First Stage Offering and the Shares and all such questions have been answered and all such information has been provided to the full satisfaction of the undersigned. The undersigned acknowledges and agrees that the making available of non-public information, answers and other materials pertaining to the Company (other than the Member Information Package) may be conditioned upon the undersigned executing and delivering a confidentiality and nondisclosure agreement in form reasonably satisfactory to the Company under which the undersigned covenants not to disclose the same nor to use it other than for purposes of the First Stage Offering.

(ix) The undersigned is not subscribing for Shares as a result of or subsequent to any advertisement, article, notice or other communication published in any newspaper, magazine or similar media or broadcast over television or radio.

(c) Non-Reliance.

(i) The undersigned represents that it is not relying on (and will not at any time rely on) any communication (written or oral) of the Company, as investment advice or as a recommendation to purchase the Shares, it being understood that information and explanations related to the terms and conditions of the Shares and the other transaction documents that relate to the transactions contemplated by the Plan of Conversion shall not be considered investment advice or a recommendation to purchase the Shares.

(ii) The undersigned confirms that the Company has not (A) given any guarantee or representation as to the potential success, return, effect or benefit (either legal, regulatory, tax, financial, accounting or otherwise) of an investment in the Shares or (B) made any representation to the undersigned regarding the legality of an investment in the Shares under applicable legal investment or similar laws or regulations. In deciding to purchase the Shares, the undersigned is not relying on the advice or recommendations of the Company and the undersigned has made his, her, its or their own independent decision that the investment in the Shares is suitable and appropriate for the undersigned.

(d) Status of Undersigned.

(i) The undersigned has such knowledge, skill and experience in business, financial and investment matters that the undersigned is capable of evaluating the merits and risks of an investment in the Shares. With the assistance of the undersigned's own professional advisors, to the extent that the undersigned has deemed appropriate, the undersigned has made his, her or its own legal, tax, accounting and financial evaluation of the merits and risks of an investment in the Shares and the consequences of this Subscription Agreement. The undersigned has considered the suitability of the Shares as an investment in light of its own circumstances and financial condition and the undersigned is able to bear the risks associated with an investment in the Shares and its authority to invest in the Shares.

(ii) The undersigned understands that the offering and sale of Shares by the Company to the undersigned are intended to be exempt from registration under the Securities Act by virtue of Section 4(2) of the Securities Act and the provisions of Rule 506 of Regulation D promulgated thereunder. Accordingly, the undersigned understands that the purchase of the Shares is limited to "accredited investors" as defined in Rule 501(a) under the Securities Act and no more than 35 Eligible Members who are unaccredited investors in the aggregate. To assist the Company in its efforts to comply with the Securities Act, the undersigned acknowledges that he, she, it or they has or have completed a Questionnaire in the form attached as Exhibit A hereto. The undersigned confirms that the information provided by the undersigned in the Questionnaire is true and correct, and the undersigned understands that the Company is relying upon such information in connection with the purchase of Shares by the undersigned. The undersigned agrees to furnish any additional information requested by the Company or any of its affiliates to assure compliance with Regulation D and any other applicable U.S. federal and state securities laws in connection with the purchase and sale of the Shares.

(iii) The undersigned's overall commitment to investments that are not readily marketable is not disproportionate to the undersigned's net worth and the undersigned's

investment in the Company will not cause such overall commitment to become disproportionate to the undersigned's net worth.

(iv) The undersigned has adequate net worth and means of providing for the undersigned's current financial needs and personal contingencies, is able to bear the substantial economic risks of an investment in the Shares for an indefinite period of time, has no need for liquidity in such investment and, at the present time, could afford a complete loss of such investment.

(e) Limitations on Subscription. The undersigned acknowledges that the undersigned's subscription may be subject to the limitations set forth in Section VII.A.1 of the Plan of Conversion, which include the following:

(i) A requirement that any subscription in the First Stage Offering be for at least 500 Shares;

(ii) The Company will not accept subscriptions, in the First Stage Offering, from more than 35 persons who are not "accredited investors" as defined in Rule 501(a) under the Securities Act. If the Company receives subscriptions from more than 35 such persons, the Company shall determine which subscriptions to accept in accordance with Section VII.A.1 of the Plan of Conversion.

(iii) The Company will not accept subscriptions, in the First Stage Offering, for more than 3,250,000 Shares in the aggregate. If the Company receives subscriptions for more than that number of Shares, the Company shall determine which subscriptions to accept in accordance with Section VII.A.1 of the Plan of Conversion.

(iv) Any subscription from a person who would become a 5% Subscriber will be conditioned upon, among other things: (i) approval of that subscription by the Pennsylvania Insurance Department; and (ii) that person executing a joinder to the Shareholder Agreement.

(v) Any proposed subscription from a person who would become a holder of 10% or more of the Shares will be conditioned upon, among other things, the approval by the Pennsylvania Insurance Department of a Form A filed by such person. The execution and delivery to the Company by any such person of a subscription agreement in the First Stage Offering with respect to such a subscription constitutes that person's legally binding commitment to prepare, execute and file such a Form A.

(vi) If the undersigned becomes a holder of 10% or more of the Shares, the undersigned will be subject to such informational, notice, periodic filing and other requirements as are applicable to a holder of 10% or more of the voting capital stock of an insurance holding company pursuant to the Pennsylvania insurance laws

(f) Restrictions on Transfer or Sale of Shares:

(i) The undersigned is acquiring the Shares solely for the undersigned's own beneficial account, for investment purposes only and not with a view to, or for resale in connection with, any distribution of the Shares or to liquidate the Company or any of its

subsidiaries. The undersigned understands that the Shares have not been registered under the Securities Act or the Pennsylvania Securities Act by reason of specific exemptions under the provisions thereof which depend in part upon the investment intent of the undersigned and of the other representations made by the undersigned in this Subscription Agreement. The undersigned understands that the Company is relying upon the representations and agreements contained in this Subscription Agreement (and any supplemental information) for the purpose of determining whether this transaction meets the requirements for such exemptions.

(ii) The undersigned understands that the Shares are “restricted securities” under applicable federal securities laws and that the Securities Act and the rules of the U.S. Securities and Exchange Commission (the “**Commission**”) provide in substance that the undersigned may dispose of the Shares only pursuant to an effective registration statement under the Securities Act or an exemption therefrom, and the undersigned understands that the Company has no obligation or intention to register any of the Shares, or to take action so as to permit sales pursuant to the Securities Act (including Rule 144 thereunder). Accordingly, the undersigned understands that under the Commission’s rules, the undersigned may dispose of the Shares principally only in “private placements” which are exempt from registration under the Securities Act, in which event the transferee will acquire “restricted Shares” subject to the same limitations as in the hands of the undersigned. Consequently, the undersigned understands that the undersigned must bear the economic risks of the investment in the Shares for an indefinite period of time.

(iii) The undersigned agrees: (A) that the undersigned will not sell, assign, pledge, give, transfer or otherwise dispose of the Shares or any interest therein, or make any offer or attempt to do any of the foregoing, except pursuant to a registration of the Shares under the Securities Act and all applicable state securities laws, or in a transaction which is exempt from the registration provisions of the Securities Act and all applicable state securities laws; (B) that the certificates representing the Shares will bear a legend making reference to the foregoing restrictions; and (C) that the Company and its affiliates shall not be required to give effect to any purported transfer of such Shares except upon compliance with the foregoing restrictions. If the undersigned is a 5% Subscriber, the undersigned also agrees to observe his, her, its or their covenants under the Shareholder Agreement, including those covenants that restrict the transfer of the Shares.

8. Conditions to Obligations of the Undersigned and the Company. The obligations of the undersigned to purchase and pay for the number of Shares set forth on the signature page to this Agreement, and of the Company to sell the Shares are subject to the satisfaction at or prior to the Closing of the following conditions precedent: (A) the representations and warranties of the Company contained in **Section 6** hereof and of the undersigned contained in **Section 7** hereof shall be true and correct as of the Closing in all respects with the same effect as though such representations and warranties had been made as of the Closing, (B) the closing under the Plan of Conversion has occurred, (C) the undersigned has tendered payment of the subscription price as provided in **Section 4** hereof and (D) if applicable, the undersigned has joined and become a party to the Shareholder Agreement by executing and delivering a joinder to the Shareholder Agreement.

9. Obligations Irrevocable. The obligations of the undersigned shall be irrevocable by the undersigned.

10. Waiver, Amendment. Neither this Subscription Agreement nor any provisions hereof may be modified, changed, discharged or terminated except by an instrument in writing, signed by the party against whom any waiver, change, discharge or termination is sought.

11. Assignability. Neither this Subscription Agreement nor any right, remedy, obligation or liability arising hereunder or by reason hereof shall be assignable by either the Company or the undersigned without the prior written consent of the other party.

12. Submission to Jurisdiction. With respect to any suit, action or proceeding relating to any offers, purchases or sales of the Shares by the undersigned (“**Proceedings**”), the undersigned irrevocably submits to the jurisdiction of the federal or state courts located in the Commonwealth of Pennsylvania, which submission shall be exclusive unless none of such courts has lawful jurisdiction over such Proceedings.

13. Governing Law. This Subscription Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania.

14. Section and Other Headings. The section and other headings contained in this Subscription Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Subscription Agreement.

15. Counterparts. This Subscription Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which together shall be deemed to be one and the same agreement. This Subscription Agreement may be executed and delivered via electronic or facsimile transmission with the same force and effect as if it were executed and delivered by the parties simultaneously in the presence of one another.

16. Notices. All notices and other communications provided for herein shall be in writing and shall be deemed to have been duly given if delivered personally or sent by registered or certified mail, return receipt requested, postage prepaid to the following addresses (or such other address as either party shall have specified by notice in writing to the other):

If to the Company:

Saucon Holding Company
74 West Broad Street, Suite 300
Bethlehem, PA 18018
Facsimile: 610-317-0998
E-mail: steve.bajan@sauconinsurance.com
Attention: Stephen Bajan, Chief Executive Officer

with a copy to:

Saul Ewing LLP
2 North Second Street, 7th Floor
Harrisburg, PA 17101
Facsimile: 717-257-7582
E-mail: cfoster@saul.com

Attention: Constance B. Foster, Esq.

If to the undersigned:

At the address of set forth on the signature page to this Agreement.

17. Binding Effect. The provisions of this Subscription Agreement shall be binding upon and accrue to the benefit of the parties hereto and their respective heirs, legal representatives, successors and assigns.

18. Survival. All representations, warranties and covenants contained in this Subscription Agreement shall survive (i) the acceptance of the subscription by the Company and the Closing, (ii) changes in the Plan of Conversion and to related documents and instruments that are not material or which are to the benefit of the undersigned and (iii) the death or disability of the undersigned.

19. Notification of Changes. The undersigned hereby covenants and agrees to notify the Company upon the occurrence of any event prior to the closing of the purchase of the Shares pursuant to this Subscription Agreement which would cause any representation, warranty, or covenant of the undersigned contained in this Subscription Agreement to be false or incorrect.

20. Severability. If any term or provision of this Agreement is invalid, illegal or unenforceable in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other term or provision of this Agreement or invalidate or render unenforceable such term or provision in any other jurisdiction.

21. Entire Agreement. This Subscription Agreement, including the Exhibits attached hereto, the Plan of Conversion and Member Documents Package, contains the entire agreement of the parties with respect to the subject matter hereof and there are no representations, covenants or other agreements except as stated or referred to herein.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the undersigned has executed this Subscription Agreement as of the _____ day of _____, 2017.

Number of Shares Subscribed for: _____
(minimum of 500 Shares; maximum of 3,250,000 Shares)

Aggregate Subscription Amount (\$1.00 per Share): \$ _____
(minimum of \$500; maximum of \$3,250,000)

Note: This Subscription Agreement must be executed and delivered by the same person(s) who are identified as the Named Insureds of the undersigned's Saucon Mutual policy (for example, if the Named Insureds of a policy are Mr. X and Mrs. Y, and Mr. X and Mrs. Y desire to forego the Member Consideration and subscribe, then Mr. X and Mrs. Y must both sign this Subscription Agreement, using the Subscriber and Co-Subscriber blanks as appropriate. See the definition of "Eligible Member" in the Plan of Conversion.)

Individuals Sign Below (attach additional pages if there are more than two Named Insureds):

Please Print Name of Subscriber Signature of Subscriber Social Security Number

Please Print Name of Co-Subscriber Signature of Co-Subscriber Social Security Number

Entities Sign Below (attach additional pages if more than one entity is a Named Insured):

(Print Name of Entity)

By: _____
Signature

(Print Name and Title)

Federal Tax Identification Number

Address (Residence/Headquarters) of Subscriber:

THIS PORTION NOT TO BE COMPLETED BY SUBSCRIBER

RECEIPT AND ACCEPTANCE

CHECK AND SUBSCRIPTION AGREEMENT RECEIVED ON
_____, 2017.

By: _____

SUBSCRIPTION ACCEPTED ON _____, 2017.

SAUCON HOLDING COMPANY

By: _____

Name: Stephen Bajan

Title: Chief Executive Officer

EXHIBIT A

CONFIDENTIAL SUBSCRIBER QUESTIONNAIRE

This Confidential Subscriber Questionnaire (this “**Questionnaire**”) is being given to the person or entity who has expressed an interest in subscribing for shares of common stock (the “**Shares**”) from Saucon Holding Company, a Pennsylvania corporation (“**Saucon Holding**”). To be eligible to purchase Shares, a subscriber must either be (i) an “accredited investor” as defined in Rule 501 under Regulation D promulgated under the Securities Act of 1933, as amended (the “**Securities Act**”), or (ii) one of a limited number of unaccredited investors. The purpose of this Questionnaire is to determine whether you are an accredited investor or if there exist any other circumstances that would disqualify you from subscribing for the Shares. If the Shares subscribed for are to be owned by more than one person, you and each other co-subscriber must complete a separate Questionnaire (except if the co-subscriber is your spouse) and sign the signature page attached hereto. If your spouse is a co-subscriber, you must indicate his or her name and social security number.

Your answers to the questions contained herein must be true and correct. Your answers will be kept strictly confidential at all times. However, by signing this Questionnaire, you will be authorizing Saucon Holding to present a completed copy of this Questionnaire to such parties as it may deem appropriate in order to make certain that the offer and sale of the Shares will not result in a violation of the Securities Act or of the securities laws of any state. Any subscriber may be required to furnish additional information as Saucon Holding or Saucon Mutual Insurance Company determines in its sole discretion.

This Questionnaire does not constitute an offer to sell or a solicitation of an offer to buy Shares or any other security of Saucon Holding.

All questions must be answered in their entirety. If the appropriate answer is “None” or “Not applicable,” please so state. Please print or type your answers to all questions and attach additional sheets if necessary to complete your answers to any item.

1. GENERAL INFORMATION

If Subscriber is an individual:

1. Name(s): _____
2. Age(s): _____
3. Social Security Number:
Subscriber: _____
Co-subscriber: _____
4. Home Address: _____
5. Business Address: _____
6. Send mail to: _____
7. Home Telephone: _____
8. Business Telephone: _____
9. Occupation: _____
10. Employer: _____
11. Education (Highest Degree Obtained): _____
12. E-mail Address: _____

If Subscriber is a corporation, partnership, trust, limited liability company or other entity (an **“Entity”**):

1. Name of Entity: _____
2. Date of Organization: _____
3. State of Organization: _____
4. Taxpayer Identification No.: _____
5. Principal Business Address: _____
6. Telephone: _____
7. Send Mail to: _____
8. E-mail Address: _____

9. Other: _____

2. FINANCIAL SUITABILITY

To be eligible to purchase Shares, a subscriber must either be (i) an “accredited investor” as defined in Rule 501 under Regulation D promulgated under the Securities Act or (ii) one of a limited number of unaccredited investors. The requirements to be an accredited investor are described below.

If the subscriber is a corporation, Massachusetts or similar business trust, limited liability company, partnership, trust or employee benefit plan formed for the specific purpose of acquiring Shares or having total assets of \$5,000,000 or less, then each equity owner of the subscribing entity must be an accredited investor for such entity to be an accredited investor. In such case, EACH EQUITY OWNER MUST COMPLETE AN INDIVIDUAL QUESTIONNAIRE. If the subscriber is a corporation, Massachusetts or similar business trust, limited liability company, partnership, trust or employee benefit plan not formed for the specific purpose of acquiring Shares and having total assets of more than \$5,000,000, then the subscribing entity, but not the equity owners of the investing entity, must have the capacity to protect its own interests in connection with an investment in the Shares. In such case, the SUBSCRIBING ENTITY MUST COMPLETE THIS QUESTIONNAIRE, BUT NO EQUITY OWNER NEED FILL OUT A SEPARATE QUESTIONNAIRE.

To be Completed by Individuals:

The following questions are intended to permit a determination of whether you meet the requirements to be an “accredited investor.” Answer all questions “yes” or “no” as they are applicable to your individual situation.

(a) I certify that I have a net worth,¹ either individually or jointly with my spouse, in excess of \$1,000,000.

Yes _____ No _____

(b) I certify that:

(i) I had an individual income² of more than \$200,000 in each of the calendar years 2015 and 2016, and I reasonably expect to have an individual income in excess of \$200,000 in calendar year 2017; or

1 For purpose of this Questionnaire, “net worth” means the excess of total assets at fair market value, excluding the value of your primary residence, over total liabilities, including income taxes on unrealized appreciation of assets, but excluding mortgages.

2 For purposes of this Questionnaire, “individual income” means “adjusted gross income” as reported for federal income tax purposes, less any income attributable to a spouse or to property owned by a spouse, increased by the following amounts (but not including any amounts attributable to a spouse or to property owned by a spouse): (i) the amount of any interest income received that is tax-exempt under section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), (ii) the amount of losses claimed as a limited partner in a

(ii) I had joint income³ with my spouse in excess of \$300,000 in each of the calendar years 2015 and 2016, and I reasonably expect to have joint income with my spouse in excess of \$300,000 in calendar year 2017.

Yes _____ No _____

(c) Are you obligated as an endorser, guarantor, surety, indemnitor or otherwise for any significant contingent liabilities or are there any suits outstanding or litigation or claims pending against you that could adversely and materially affect your financial condition?

Yes _____ No _____

If "Yes," please provide details:

(d) Are you a director or executive officer of Saucon Mutual Insurance Company?

Yes _____ No _____

To be completed by Entities:

The following questions are intended to permit a determination of whether the subscriber meets the requirements to be an "accredited investor." Answer all questions "yes" or "no" as they are applicable to the situation of the subscriber.

A. (1) Has the subscribing corporation, partnership, trust or employee benefit plan been formed for the specific purpose of investing in Shares?

Yes _____ No _____

(2) Does the subscribing corporation, partnership, trust or employee benefit plan have total assets of \$5,000,000 or less?

Yes _____ No _____

If the answer to **both** of questions A(1) and A(2) is "No," respond to question **B** below. If the answer to **either** of questions A(1) or A(2) is "Yes," respond to question **C** below.

limited partnership (as reported on Schedule E of Form 1040) and (iii) any deduction claimed for depletion under section 611 et seq. of the Code.

3 For purpose of this Questionnaire, "joint income" means "adjusted gross income" of you and your spouse reported for federal income tax purposes, increased by the following amounts: (i) the amount of any interest income received that is tax-exempt under section 103 of the Code; (ii) the amount of losses claimed as a limited partner in a limited partnership (as reported on Schedule E of Form 1040); and (iii) any deduction claimed for depletion under section 611 et seq. of the Code.

- B. (1) The undersigned entity will be an accredited investor if it falls into the one of the categories in subsection (2) below. Is the undersigned entity an accredited investor?

Yes _____ No _____

- (2) If your answer to question B(1) is "Yes," please indicate the appropriate category by CHECKING OR PUTTING YOUR INITIALS ON the appropriate line.

_____ (a) a bank as defined in section 3(a)(2) of the Securities Act, or a savings and loan association or other institution as defined in section 3(a)(5)(A) of the Securities Act, whether acting in an individual or fiduciary capacity;

_____ (b) a broker or dealer registered pursuant to section 15 of the Securities Exchange Act of 1934;

_____ (c) an insurance company as defined in section 2(13) of the Securities Act;

_____ (d) an investment company registered under the Investment Company Act of 1940;

_____ (e) a business development company as defined in section 2(a)(48) of the Investment Company Act of 1940;

_____ (f) a Small Business Investment Company licensed by the U.S. Small Business Administration under section 301(c) or (d) of the Small Business Investment Act of 1958;

_____ (g) a plan established and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions, for the benefit of its employees if such plan has total assets in excess of \$5,000,000;

_____ (h) an employee benefit plan within the meaning of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), if the investment decision is made by a plan fiduciary, as defined in section 3(21) of ERISA, which is either a bank, savings and loan association, insurance company or registered investment adviser or if the employee benefit plan has total assets in excess of \$5,000,000 or, if a self-directed plan, with investment decisions made solely by persons that are accredited investors;

_____ (i) a private business development company as defined in section 202(a)(22) of the Investment Advisers Act of 1940;

_____ (j) a corporation, a limited liability company, a partnership, a Massachusetts or similar business trust or an organization described in section 501(c)(3) of the Internal Revenue Code of 1986, as amended, not formed for the specific purpose of acquiring Shares, with total assets in excess of \$5,000,000; or

_____ (k) a trust with total assets in excess of \$5,000,000, whose purchase is directed by a sophisticated person as described in Rule 506(b)(2)(ii) under Regulation D promulgated under the Securities Act.

(3) The undersigned entity has the capacity to protect its own interests in connection with its proposed investment in Shares.

Yes _____ No _____

C. (1) The undersigned entity will be an accredited investor if each of its shareholders, partners or beneficiaries meets at least one of the categories in subsection (2) below. Is the undersigned entity an accredited investor?

Yes _____ No _____

(2) If your answer to question C(1) is "Yes," please indicate the relevant categories by CHECKING OR PUTTING YOUR INITIALS ON the appropriate lines.

_____ (a) The shareholder, partner or beneficiary is a natural person whose individual net worth, or joint net worth with his/her spouse, at the time of his/her purchase exceeds \$1,000,000.

_____ (b) The shareholder, partner or beneficiary is a natural person who had (A) an individual income in excess of \$200,000 for calendar years 2015 and 2016 and who reasonably expects to have an individual income in excess of \$200,000 for calendar year 2017 or (B) a joint income with that of his/her spouse in excess of \$300,000 for calendar years 2015 and 2016 and who reasonably expects to have a joint income with that of his/her spouse in excess of \$300,000 for calendar year 2017.

_____ (c) The shareholder, partner or beneficiary is a corporation, partnership, trust or other entity that meets the description of at least one of the organizations specified in subsection B(2) above.

D. Is the subscribing entity obligated as an endorser, guarantor, surety, indemnitor or otherwise for any significant contingent liabilities or are there any suits outstanding or litigation or claims pending against the subscribing entity which could adversely and materially affect its financial condition?

Yes _____

No _____

If "Yes," please provide details:

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the undersigned represents the foregoing information to be true and correct and understands that such information will be relied upon by Saucon Holding Company in connection with the subscription for Shares by the undersigned. This Questionnaire is executed the _____ day of _____, 2017.

Print Name of Subscribing Entity or Individual

By: _____
Name:
Title:

Print Name of Joint Person

By: _____
Name:
Title:

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SHAREHOLDER AGREEMENT

This Shareholder Agreement (as executed and as it may be amended, modified, supplemented or restated from time to time, as provided herein, this “**Agreement**”), dated as of [EFFECTIVE DATE] (the “**Effective Date**”), is entered into among Saucon Holding Company, a Pennsylvania corporation (the “**Company**”), each Person identified on **Schedule A** hereto and executing a joinder hereto (each, an “**Original Shareholder**” and, collectively, the “**Original Shareholders**”) and each other Person who after the date hereof acquires securities of the Company and agrees to become a party to, and bound by, this Agreement as a Shareholder by executing a joinder to this Agreement. All parties to this Agreement other than the Company are each referred to herein as a “**Shareholder**” and, collectively, the “**Shareholders.**”

BACKGROUND

- A. The Company was incorporated to acquire and hold all of the capital stock of Saucon Insurance Company pursuant to the Third Amended and Restated Alternative Plan of Conversion of Saucon Mutual Insurance Company (the “**Insurance Company Demutualization Plan**”).
- B. The Original Shareholders consist of (i) persons who acquired at least 5% of the shares of capital stock of the Company in the First Stage Offer (as that term is defined in the Insurance Company Demutualization Plan), and (ii) all of those individuals who were members of the “Control Group” as that term is defined in the Insurance Company Demutualization Plan (i.e., individuals who were members of the board of directors or executive officers of Saucon Mutual Insurance Company at the time that the Insurance Company Demutualization Plan was adopted), all of whom acquired shares of capital stock of the Company in the Second Stage Offer (as that term is defined in the Insurance Company Demutualization Plan). The Original Shareholders were required to enter into this Agreement as a condition precedent to their acquisition of the shares of the Company.
- C. The Company and the Shareholders desire to enter into this Agreement to govern their mutual relationships, including provisions relating to the transfer of shares of capital stock of the Company.

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I DEFINITIONS

Section 1.01 Definitions. When used in this Agreement with initial capital letters, the following terms have the meanings specified or referred to in this **Section 1.01**:

“**Additional Allotment Availability Notice**” has the meaning set forth in **Section 4.03(e)(iv)**.

“Additional Allotment Exercise Notice” has the meaning set forth in **Section 4.03(e)(iv)**.

“Additional Allotment Option Period” has the meaning set forth in **Section 4.03(e)(iv)**.

“Agreed Company Value” means (A) at any time on or prior to June 30, 2017, \$3,250,000 and (B) thereafter an amount, as of any such time, equal to (i) \$3,250,000 plus (ii) the cumulative increase in the net book value of the Company’s assets, on a consolidated basis with the Company’s Subsidiaries, since December 31, 2016, as set forth in the Company’s audited consolidated financial statements for all of the completed fiscal years from December 31, 2016 until the time in question (it being acknowledged that the amount referred to in this clause (ii) may be a negative number).

“Agreement” has the meaning set forth in the Preamble.

“Applicable Law” means all applicable provisions of (a) constitutions, treaties, statutes, laws (including the common law), rules, regulations, decrees, ordinances, codes, proclamations, declarations or orders of any Governmental Authority; (b) any consents or approvals of any Governmental Authority; and (c) any orders, decisions, advisory or interpretative opinions, injunctions, judgments, awards, decrees of, or agreements with, any Governmental Authority.

“Board” means the board of directors of the Company.

“Business Day” means a day other than a Saturday, Sunday or other day on which commercial banks in Bethlehem, Pennsylvania are authorized or required to close.

“Company” has the meaning set forth in the Preamble.

“Company Confidential Information” means any confidential and proprietary information of the Company or of any Subsidiary of the Company or any of their respective clients, including without limitation customer lists, data, business plans, know-how, trade secrets, and other proprietary and confidential information or material, whether or not explicitly labeled as such, in each case so long as it is neither generally known nor readily ascertainable by the public.

“Company Exercise Notice” has the meaning set forth in **Section 4.03(e)(ii)**.

“Company Option Period” has the meaning set forth in **Section 4.03(e)(ii)**.

“Excluded Issuance” means an issuance or sale of any capital stock of the Company or Stock Equivalents in connection with: (a) a grant to any existing or prospective Directors, officers or other employees of the Company or any Subsidiary of the Company pursuant to a stock option plan or similar equity-based plans or other compensation agreement; (b) the exercise of any warrants or other rights to acquire capital stock of the Company; (c) any acquisition by the Company or any Subsidiary of the Company of any equity interests, assets,

properties or business of any Person; (d) any merger, consolidation or other business combination involving the Company or any Subsidiary of the Company; (e) the commencement of any public offering of the securities of the Company that is registered under the Securities Act; (f) any subdivision of capital stock of the Company (by a split of capital stock of the Company or otherwise), payment of stock dividend, reclassification, reorganization or any similar recapitalization; (g) any private placement of warrants to purchase capital stock of the Company to lenders or other institutional investors (excluding the Shareholders) in any arm's length transaction in which such lenders or investors provide debt financing to the Company or any Subsidiary of the Company; (h) a joint venture, strategic alliance or other commercial relationship with any Person (including Persons that are customers, suppliers and strategic partners of the Company or any Subsidiary of the Company) relating to the operation of the Company's or any Subsidiary of the Company's business and not for the primary purpose of raising equity capital; or (i) any office lease or equipment lease or similar equipment financing transaction in which the Company or any Subsidiary of the Company obtains from a lessor or vendor the use of such office space or equipment for its business.

"Deceased Shareholder Put Notice" has the meaning set forth in **Section 3.01**.

"Exercising Shareholder" has the meaning set forth in **Section 4.03(e)(iv)**.

"Family Members" has the meaning set forth in **Section 4.02(a)**.

"First Offer Notice" has the meaning set forth in **Section 4.03(a)**.

"Fully Diluted Basis" means, as of any date of determination: all shares of issued and outstanding capital stock of the Company and all shares of capital stock of the Company issuable upon the exercise or conversion of any outstanding Stock Equivalents as of such date, whether or not such Stock Equivalent is at the time exercisable or convertible that are issuable upon the conversion or exercise of any outstanding Stock Equivalents as of such date, whether or not such Stock Equivalent is at the time exercisable or convertible.

"Fully Exercising Shareholder" has the meaning set forth in **Section 2.01(d)**.

"Governmental Authority" means any federal, state, local or foreign government or political subdivision thereof, or any agency or instrumentality of such government or political subdivision, or any self-regulated organization or other non-governmental regulatory authority or quasi-governmental authority (to the extent that the rules, regulations or orders of such organization or authority have the force of law), or any arbitrator, court or tribunal of competent jurisdiction.

"Initial Shareholder" means each Person identified as a Shareholder as of the date hereof.

"Insurance Company Demutualization Plan" has the meaning set forth in Paragraph A of the Background.

“**Issuance Notice**” has the meaning set forth in **Section 2.01(b)**.

“**New Securities**” means any authorized but unissued shares of capital stock or any Stock Equivalents.

“**Offered Stock**” has the meaning set forth in **Section 4.03(a)**.

“**Offering Shareholder**” has the meaning set forth in **Section 4.03(a)**.

“**Over-allotment Exercise Period**” has the meaning set forth in **Section 2.01(d)**.

“**Over-allotment Notice**” has the meaning set forth in **Section 2.01(d)**.

“**Permitted Transfer**” means a Transfer of capital stock of the Company or Stock Equivalents carried out pursuant to **Section 4.02**.

“**Permitted Transferee**” means a recipient of a Permitted Transfer.

“**Person**” means an individual, corporation, partnership, joint venture, limited liability company, Governmental Authority, unincorporated organization, trust, association or other entity.

“**Pre-emptive Acceptance Notice**” has the meaning set forth in **Section 2.01(c)**.

“**Pre-emptive Exercise Period**” has the meaning set forth in **Section 2.01(c)**.

“**Pro Rata Portion**” means, for any Shareholder as of any particular time, a fraction determined by dividing (a) the number of shares of capital stock of the Company on a Fully Diluted Basis owned by such Shareholder immediately prior to such time by (b) the aggregate number of shares of capital stock of the Company on a Fully Diluted Basis owned by all of the Shareholders immediately prior to such time.

“**Prospective Purchaser**” has the meaning set forth in **Section 2.01(b)**.

“**Prospective Transferee**” has the meaning set forth in **Section 4.03(a)**.

“**Remaining New Securities**” has the meaning set forth in **Section 2.01(d)**.

“**Securities Act**” means the Securities Act of 1933, as amended, or any successor federal statute, and the rules and regulations thereunder, which are in effect at the time.

“**Shareholder**” has the meaning set forth in the Preamble.

“**Shareholders**” has the meaning set forth in the Preamble.

“**Shareholder Exercise Notice**” has the meaning set forth in **Section 4.03(c)(iii)**.

“Shareholder Option Period” has the meaning set forth in **Section 4.03(e)(iii)**.

“Stock Equivalents” means any stock option and any other security or obligation that is by its terms, directly or indirectly, convertible into or exchangeable or exercisable for shares of capital stock of the Company, and any option, warrant or other right to subscribe for, purchase or acquire shares of capital stock of the Company or Stock Equivalents (disregarding any restrictions or limitations on the exercise of such rights).

“Subsidiary” means, with respect to any Person, any other Person of which a majority of the outstanding shares or other equity interests having the power to vote for directors or comparable managers are owned, directly or indirectly, by the first Person.

“Transfer” means to, directly or indirectly, sell, transfer, assign, pledge, encumber, hypothecate or similarly dispose of, either voluntarily or involuntarily, by operation of law or otherwise, or to enter into any contract, option or other arrangement or understanding with respect to the sale, transfer, assignment, pledge, encumbrance, hypothecation or similar disposition of, any shares of capital stock of the Company or Stock Equivalents owned by a Person or any interest (including a beneficial interest) in any capital stock of the Company or Stock Equivalents owned by a Person. **“Transfer,”** when used as a noun, have a correlative meaning.

“Transfer Offer” has the meaning set forth in **Section 4.03(a)(iii)**.

“Transferee” means a recipient of, or proposed recipient of, a Transfer, including a Permitted Transferee or a Prospective Transferee.

“Transferor” means a Shareholder who makes a Transfer.

Section 1.02 Interpretation. For purposes of this Agreement: (a) the words “include,” “includes” and “including” are to be deemed to be followed by the words “without limitation;” (b) the word “or” is not exclusive; and (c) the words “herein,” “hereof,” “hereby,” “hereto” and “hereunder” refer to this Agreement as a whole. The definitions given for any defined terms in this Agreement apply equally to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun includes the corresponding masculine, feminine and neuter forms. Unless the context otherwise requires, references herein: (x) to Articles, Sections, Exhibits and Schedules mean the Articles and Sections of, and Exhibits and Schedules attached to, this Agreement; (y) to an agreement, instrument or other document means such agreement, instrument or other document as amended, supplemented and modified from time to time to the extent permitted by the provisions thereof; and (z) to a statute means such statute as amended from time to time and includes any successor legislation thereto and any regulations promulgated thereunder. This Agreement is to be construed without regard to any presumption or rule requiring construction or interpretation against the party drafting an instrument or causing any instrument to be drafted. The Exhibits and Schedules referred to herein are to be construed

with, and as an integral part of, this Agreement to the same extent as if they were set forth verbatim herein.

ARTICLE II PRE-EMPTIVE RIGHTS

Section 2.01 Pre-emptive Right.

(a) **Issuance of New Securities.** The Company hereby grants to each Shareholder a separate right to purchase its Pro Rata Portion (subject to its over-allotment option in **Section 2.01(d)** below) of any New Securities that the Company may from time to time propose to issue or sell to any party; *provided*, that the provisions of this **Section 2.01** will not apply to any Excluded Issuance.

(b) **Additional Issuance Notices.** The Company shall give written notice (an “**Issuance Notice**”) of any proposed issuance or sale of New Securities described in **Section 2.01(a)** to the Shareholders within 5 days following any meeting of the Board at which any such issuance or sale is approved. If applicable, the Issuance Notice is to be accompanied by a written offer from any prospective purchaser seeking to purchase the applicable New Securities (a “**Prospective Purchaser**”) and is to set forth the material terms and conditions of the proposed issuance or sale, including:

- (i) the number and description of New Securities proposed to be issued;
- (ii) the proposed issuance date, which is to be at least twenty (20) days from the date of the Issuance Notice;
- (iii) the proposed purchase price per share of New Securities and all other material terms of the offer or sale; and
- (iv) if the consideration to be paid by the Prospective Purchaser includes non-cash consideration, the fair market value thereof, as determined in good faith by the Board.

(c) **Exercise of Pre-emptive Rights.** Each Shareholder will for a period of 10 days following the receipt of an Issuance Notice (the “**Pre-emptive Exercise Period**”) have the right to elect irrevocably to purchase all or any portion of its Pro Rata Portion of any New Securities on the terms and conditions, including the purchase price, set forth in the Issuance Notice by delivering a written notice to the Company (a “**Pre-emptive Acceptance Notice**”) specifying the number of New Securities it desires to purchase up to its Pro Rata Portion. The delivery of a Pre-emptive Acceptance Notice by a Shareholder will be a binding and irrevocable offer by such Shareholder to purchase the New Securities described therein. The failure of a Shareholder to deliver a Pre-emptive Acceptance Notice by the end of the Pre-emptive Exercise Period will constitute a waiver of its rights under this **Section 2.01(c)** with respect to the purchase of such New Securities, but will not affect its rights with respect to any future issuances or sales of New Securities.

(d) **Over-allotment.** No later than 5 days following the expiration of the Pre-emptive Exercise Period, the Company shall give written notice (the “**Over-allotment Notice**”) to each Shareholder specifying the number of New Securities that each Shareholder has agreed to purchase (including, for the avoidance of doubt, where such number is zero) and the aggregate number of remaining New Securities, if any, not elected to be purchased by the Shareholders pursuant to **Section 2.01(c)** (the “**Remaining New Securities**”). Each Shareholder exercising its rights to purchase its Pro Rata Portion of the New Securities in full (a “**Fully Exercising Shareholder**”) will have a right of over-allotment such that if there are any Remaining New Securities, such Fully Exercising Shareholder may purchase all or any portion of its pro rata portion of the Remaining New Securities, based on the relative Pro Rata Portions of all Fully Exercising Shareholders. Each Fully Exercising Shareholder may elect to purchase its allotment of Remaining New Securities by giving written notice to the Company specifying the number of Remaining New Securities it desires to purchase within 5 days of receipt of the Over-allotment Notice (the “**Over-allotment Exercise Period**”).

(e) **Sales to the Prospective Purchaser.** Following the expiration of the Pre-emptive Exercise Period and, if applicable, the Over-allotment Exercise Period, the Company will be free to complete the proposed issuance or sale of New Securities described in the Issuance Notice with respect to which Shareholders declined to exercise the pre-emptive right set forth in this **Section 2.01** on terms no less favorable to the Company than those set forth in the Issuance Notice (except that the amount of New Securities to be issued or sold by the Company may be reduced); *provided*, that: (i) such issuance or sale is closed within 60 days after the expiration of the Pre-emptive Exercise Period and, if applicable, the Over-allotment Exercise Period; and (ii) for the avoidance of doubt, the price at which the New Securities are sold to the Prospective Purchaser is at least equal to or higher than the purchase price described in the Issuance Notice. In the event the Company has not sold such New Securities within such time period, the Company may not thereafter issue or sell any New Securities without first again offering such securities to the Shareholders in accordance with the procedures set forth in this **Section 2.01**.

(f) **Closing of the Issuance.** The closing of any purchase by any Shareholder is to be consummated concurrently with the consummation of the issuance or sale described in the Issuance Notice. Upon the issuance or sale of any New Securities in accordance with this **Section 2.01**, the Company shall deliver the New Securities in certificated form, free and clear of any liens (other than those arising hereunder and those attributable to the actions of the purchasers thereof), and the Company shall so represent and warrant to the purchasers thereof, and further represent and warrant to such purchasers that such New Securities will be, upon issuance thereof to such purchasers and after payment therefor, duly authorized, validly issued, fully paid and non-assessable. Each Shareholder shall deliver to the Company the purchase price for the New Securities purchased by it by certified or bank check or wire transfer of immediately available funds. Each party to the purchase and sale of New Securities shall take all such other actions as may be reasonably necessary to consummate the purchase and sale including, without limitation, entering into such additional agreements as may be necessary or appropriate.

ARTICLE III BUY-SELL

Section 3.01 Death of Shareholder. Upon the death of a Shareholder, the Shareholder's personal representative may, within 60 days following the date of death, deliver a written notice to the Company (the "**Deceased Shareholder Put Notice**"), whereupon the Company shall purchase all of the deceased Shareholder's shares of capital stock of the Company at the price and on the terms set forth in **Section 3.03**. If no Deceased Shareholder Put Notice is delivered by the personal representative of a deceased Shareholder within the aforesaid 60-day period, then the Company will not be obligated to purchase that deceased Shareholder's shares under this Article III.

Section 3.02 Termination of Shareholder's Status as a Director or Officer of the Company. If a Shareholder were a director or an officer of the Company on the Effective Date and, for any reason, that Shareholder's status as a director or officer of the Company terminates, then within the time period specified in **Section 3.03** the Company may, but subject to **Section 3.01** will not be required to, purchase all of the affected Shareholder's shares of capital stock of the Company at the price and on the terms set forth in **Section 3.03**. The parties agree that this **Section 3.02** will not apply with respect to any shares of capital stock of the Company held by a person who was not a director or an officer of the Company on the Effective Date.

Section 3.03 Price and Terms of a Purchase of Shares Under Section 3.01 or Section 3.02. In the event of a purchase of shares of capital stock of the Company under **Section 3.01** or **Section 3.02**, the purchase price per share will be an amount equal to the greater of (A) \$1.00 per share; or (B) (i) the Agreed Company Value as of the date of death or termination, as applicable, divided by (ii) the number of outstanding shares of capital stock of the Company on a Fully Diluted Basis as of the date of death or termination, as applicable; and the closing of such purchase is to occur at a date and time specified by the Company (not more than 120 days following the date of death or the date of termination of the affected Shareholder's status as a director or officer, as applicable), and all of the affected Shareholder's shares of capital stock of the Company are to be deemed to have been repurchased at the closing. At the closing, the Company shall pay the purchase price for the shares in question either, at the Company's option, in a lump sum in cash or in the form of the Company's promissory note providing for principal payments in five equal annual installments on the first, second, third, fourth and fifth anniversaries of the closing date, with each installment bearing interest at the mid-term applicable federal rate in effect on the closing date. Notwithstanding the foregoing, if at any time the Board determines in good faith that the Company does not have sufficient available cash to pay in full, or is restricted by law from paying in full, any installment due on any note described in this **Section 3.03**, the Company may defer the payment of that installment until such time as the Board determines in good faith that the Company has sufficient available cash to pay that installment or is otherwise permitted by law to pay it, whereupon the Company will pay it. Each Shareholder hereby irrevocably appoints the officers of the Company as such Shareholder's true and lawful attorney in the name, place and stead of such Shareholder, such appointment

being coupled with an interest, to execute, sign, acknowledge and file all papers which are necessary or desirable to effect any sale of that Shareholder's shares under this **Section 3.03**.

Section 3.04 Life Insurance. The Company may, but will not be required to, procure and maintain a life insurance policy with respect to any one or more Shareholders in order to permit the Company to apply the proceeds of such insurance policy to the purchase price for shares under **Section 3.01**. If the proceeds of any such insurance policy exceed the purchase price for such Shareholder's shares, the Company may retain the excess.

ARTICLE IV TRANSFER

Section 4.01 General Restrictions on Transfer.

(a) **Shareholders.** Each Shareholder acknowledges and agrees that such Shareholder (or any Permitted Transferee of such Shareholder) may not Transfer any shares of capital stock of the Company except:

(i) With the prior written consent of the Board (and in compliance with whatever conditions and procedures the Board specifies);

(ii) pursuant to **Section 4.02**; or

(iii) in compliance with **Section 4.03**.

(b) **Other Transfer Restrictions.** Notwithstanding any other provision of this Agreement (including **Section 4.02** and **Section 4.03**), each Shareholder agrees that it will not, directly or indirectly, Transfer any of its capital stock of the Company or Stock Equivalents, and the Company agrees that it may not issue any capital stock of the Company or Stock Equivalents:

(i) unless any required approvals from the Pennsylvania Insurance Department have been duly obtained, and any filings required to be made with the Pennsylvania Insurance Department by the Company, the Transferor, the Transferee or any other Person in connection with such Transfer or issuance have been duly made;

(ii) except as permitted under the Securities Act and other applicable federal or state securities or blue sky laws, and then, with respect to a Transfer of capital stock of the Company or Stock Equivalents, if requested by the Company, only upon delivery to the Company of a written opinion of counsel in form and substance satisfactory to the Company to the effect that such Transfer may be effected without registration under the Securities Act;

(iii) if such Transfer or issuance would cause the Company or any of the Company Subsidiaries to be required to register as an investment company under the Investment Company Act of 1940, as amended; or

(iv) if such Transfer or issuance would cause the assets of the Company or any Subsidiary of the Company to be deemed “Plan Assets” as defined under the Employee Retirement Income Security Act of 1974 or its accompanying regulations or result in any “prohibited transaction” thereunder involving the Company or any Subsidiary of the Company.

(c) **Joinder.** No Transfer of capital stock of the Company or Stock Equivalents pursuant to any provision of this Agreement may be deemed completed until the Transferee has entered into a joinder in the form attached to this Agreement pursuant to which the Transferee joins and becomes a party to this Agreement as a Shareholder.

(d) **Transfers in Violation of this Agreement.** Any Transfer or attempted Transfer of any capital stock of the Company or Stock Equivalents in violation of this Agreement, including any failure of a Transferee, as applicable, to enter into a joinder to this Agreement pursuant to **Section 4.01(c)** above, will be null and void, no such Transfer may be recorded on the Company’s books and the purported Transferee in any such Transfer is not to be treated (and the Shareholder proposing to make any such Transfer is to continue be treated) as the owner of such capital stock of the Company or Stock Equivalents for all purposes of this Agreement.

Section 4.02 Permitted Transfers. Subject to **Section 4.01** above, including the requirement to enter into a joinder to this Agreement pursuant to **Section 4.01(c)** above, the provisions of **Section 4.03** will not apply to any Transfer by any Shareholder of any of its capital stock of the Company or Stock Equivalents, to:

(a) such Shareholder’s spouse, descendants (including adoptive relationships and stepchildren) and the spouses of each such natural persons (collectively, “**Family Members**”);

(b) a trust under which the distribution of capital stock of the Company may be made only to such Shareholder and/or any Family Members of such Shareholder;

(c) a charitable remainder trust, the income from which will be paid only to such Shareholder during his life;

(d) a corporation, partnership or limited liability company, the shareholders, partners or members of which are only such Shareholder and/or Family Members of such Shareholder; or

(e) such Shareholder’s executors, administrators, testamentary trustees, legatees or beneficiaries for bona fide estate planning purposes, either by will or by the laws of intestate succession.

Section 4.03 Right of First Offer.

(a) **Offered Stock.** Before making a Transfer of shares of capital stock of the Company under this **Section 4.03**, in addition to complying with all of the relevant requirements of **Section 4.01**, the Shareholder who proposes to make the Transfer (the “**Offering Shareholder**”) must deliver a written notice (the “**First Offer Notice**”) to the Company and to all of the other Shareholders, which First Offer Notice must specify:

(i) the applicable aggregate number of shares proposed to be Transferred by the Offering Shareholder (the “**Offered Stock**”); and

(ii) the purchase price per share for the Offered Stock and the other material terms and conditions of the Transfer Offer.

(b) The First Offer Notice will constitute the Offering Shareholder’s offer to Transfer all of the Offered Stock to the Company and the other Shareholders in accordance with the provisions of this **Section 4.03**, which offer will be irrevocable until the end of the Shareholder Option Period described in **Section 4.03(e)(iii)**.

(c) By delivering the First Offer Notice, the Offering Shareholder represents and warrants to the Company and each other Shareholder that:

(i) the Offering Shareholder has full right, title and interest in and to the Offered Stock described in the First Offer Notice;

(ii) the Offering Shareholder has all the necessary power and authority and has taken all necessary action to Transfer the Offered Stock described in the First Offer Notice as contemplated by this **Section 4.03**; and

(iii) the Offered Stock described in the First Offer Notice is free and clear of any and all liens other than those arising as a result of or under the terms of this Agreement.

(d) **Exception for Permitted Transfers.** Notwithstanding anything herein to the contrary, the right of first refusal in **Section 4.03(a)** will not apply to any Transfer Offer or Transfer of Shares (or applicable Stock Equivalents) that are permitted by and made in accordance with **Section 4.02**.

(e) **Exercise of Right of First Offer; Over-Allotment Option.**

(i) Upon receipt of the First Offer Notice, the Company and each other Shareholder will have the right to purchase the Offered Stock on the terms and at the purchase price set forth in the First Offer Notice in the following order of priority: *first*, the Company will have the right to purchase all or any portion of Offered Stock in accordance with the procedures set forth in **Section 4.03(e)(ii)**, and *thereafter*, to the extent the Company does not exercise its right in full, the other Shareholders will collectively have the right to purchase up to all of the Offered Stock in accordance with the procedures set forth in **Section 4.03(e)(iii)** and **Section 4.03(e)(iv)**.

(ii) The Company may exercise its initial right to purchase any Offered Stock by delivering a written notice (the “**Company Exercise Notice**”) to the Offering Shareholder and the other Shareholders within 30 days of receipt of the First Offer Notice (the “**Company Option Period**”), stating the number (including where such number is zero) of shares of Offered Stock the Company elects to purchase on the terms and purchase price(s) set forth in the First

Offer Notice. The Company Exercise Notice will be binding upon delivery and irrevocable by the Company. If the Company fails to deliver a Company Exercise Notice within the 30-day period then the Company will be deemed to have delivered a Company Exercise Notice, upon the expiration of that period, stating that the Company elects not to purchase any Offered Stock.

(iii) If the Company does not elect to purchase all of the Offered Stock, the other Shareholders may purchase the remaining Offered Stock not elected to be purchased by the Company. For a period of 30 days following the receipt of a Company Exercise Notice in which the Company has elected to purchase less than all the Offered Stock (such period, the “**Shareholder Option Period**”), each other Shareholder may elect to purchase all or any portion of its Pro Rata Portion of remaining Offered Stock by delivering a written notice to the Company and the Offering Shareholder (a “**Shareholder Exercise Notice**”) stating the applicable number(s) (including where such number is zero) of shares of Offered Stock that such Shareholder elects to purchase on the terms and purchase price(s) set forth in the First Offer Notice. The Shareholder Exercise Notice will be binding upon delivery and irrevocable by the Shareholder delivering it. If any Shareholder fails to deliver a Shareholder Exercise Notice within the 30-day period then that Shareholder will be deemed to have delivered a Shareholder Exercise Notice, upon the expiration of that period, stating that that Shareholder elects not to purchase any Offered Stock.

(iv) If the other Shareholders pursuant to **Section 4.03(e)(iii)** do not, in the aggregate, elect to purchase all of the remaining Offered Stock not purchased by the Company, each Shareholder electing pursuant to **Section 4.03(e)(iii)** to purchase its entire Pro Rata Portion of remaining Offered Stock (each, an “**Exercising Shareholder**”) may purchase all or any portion of any remaining Offered Stock not elected to be purchased by the Company and the other Shareholders. As promptly as practicable following the Shareholder Option Period, the Offering Shareholder shall deliver a written notice to each Exercising Shareholder (an “**Additional Allotment Availability Notice**”) stating the number(s) and type(s) of remaining Offered Stock available for purchase following the Shareholder Exercise Period. For a period of 30 days following the receipt of an Additional Allotment Availability Notice (such period, the “**Additional Allotment Option Period**”), each Exercising Shareholder may elect to purchase all or any portion of remaining Offered Stock by delivering a written notice to the Company and the Offering Shareholder (an “**Additional Allotment Exercise Notice**”) specifying the number(s) and type(s) of additional remaining Offered Stock it desires to purchase on the terms and applicable purchase price(s) set forth in the First Offer Notice. The Additional Allotment Exercise Notice will be binding upon delivery and irrevocable by the Exercising Shareholder.

(v) The failure of the Company or any Shareholder to deliver a Company Exercise Notice or a Shareholder Exercise Notice, respectively, by the end of the Company Option Period or the Shareholder Option Period, respectively, will constitute a waiver by the Company or that Shareholder, as applicable, of the applicable rights of first refusal under this **Section 4.03** with respect to the Transfer of the Offered Stock pursuant to that First Offer Notice, but will not affect their respective rights with respect to any future Transfers.

(f) **Allocation of Offered Stock.** Upon the expiration of the Shareholder Option Period or, if applicable, the expiration of the Additional Allotment Option Period, the remaining Offered Stock not selected for purchase in its entirety by the Company pursuant to **Section 4.03(e)(ii)** is to be allocated for purchase among the Exercising Shareholders in accordance with their respective Pro Rata Portions or as they may otherwise mutually agree.

(g) **Consummation of Sale to the Company and/or Other Shareholders.** If the Company and/or the other Shareholders have, in the aggregate, exercised their respective rights to purchase any of the Offered Stock, then the Offering Shareholder shall sell such Offered Stock to the Company and/or such other Shareholders, and the Company and/or such other Shareholders, as the case may be, shall purchase such Offered Stock, within 60 days following the expiration of the Shareholder Option Period or, if applicable, the Additional Allotment Option Period (either of which period may be extended for a reasonable time to the extent reasonably necessary to make any required filings with and/or obtain required approvals or consents from, the Pennsylvania Insurance Department and/or any other Governmental Authority). Each Shareholder shall take all actions as may be reasonably necessary to consummate the sale contemplated by this **Section 4.03(g)**, including, without limitation, entering into agreements and delivering certificates and instruments and consents as may be deemed necessary or appropriate. At the closing of any sale and purchase pursuant to this **Section 4.03(g)**, the Offering Shareholder shall deliver to the Company and/or the participating Shareholders certificates representing the Offered Stock to be sold, free and clear of any liens or encumbrances (other than those contained in this Agreement), accompanied by evidence of transfer, against receipt of the purchase price therefor from the Company and/or such Shareholders by certified or official bank check or by wire transfer of immediately available funds.

(h) **Sale to Third Party.** If the Company and/or the other Shareholders have not collectively elected to purchase all of the Offered Stock, then, provided the Offering Shareholder has also complied with the provisions of **Section 4.01**, to the extent applicable, the Offering Shareholder may Transfer the remaining Offered Stock to a third party, at a price per share not less than that specified in the First Offer Notice and on other terms and conditions which are not materially more favorable in the aggregate to the purchaser than those specified in the First Offer Notice, but only to the extent that such Transfer occurs within 90 days after expiration of the Shareholder Option Period or, if applicable, the Additional Allotment Option Period. Any Offered Stock not Transferred within such 90-day period will be subject to the provisions of this **Section 4.03** upon subsequent Transfer.

ARTICLE V COVENANTS

Section 5.01 Company Confidential Information. Each Shareholder must at all times from and after the date of this Agreement hold in strict confidence all Company Confidential Information that they possess or acquire and, except as required by applicable law, may not use or disclose such Company Confidential Information to any Person except on behalf of the

company or otherwise in accordance with the Company's normal business practices. The covenant in this **Section 5.01** survives the termination of any Shareholder's status as a shareholder of the Company.

Section 5.02 Regulatory Requirements. Each Shareholder must at all times take such actions, make such filings, and use its respective best efforts to enable the Company to take such actions and make such filings (including providing information to the Company), so as to comply and to cause the Company to comply with the filing and reporting requirements of the insurance laws of Pennsylvania or as otherwise required by the Pennsylvania Insurance Department.

ARTICLE VI MISCELLANEOUS

Section 6.01 Expenses. All costs and expenses, including fees and disbursements of counsel, financial advisors and accountants, incurred in connection with the preparation and execution of this Agreement, or any amendment or waiver hereof, and the transactions contemplated hereby are to be paid by the party incurring such costs and expenses.

Section 6.02 Further Assurances. In connection with this Agreement and the transactions contemplated hereby, the Company and each Shareholder hereby agrees, at the request of the Company or any other Shareholder, to execute and deliver such additional documents, instruments, conveyances and assurances and to take such further actions as may be required to carry out the provisions hereof and give effect to the transactions contemplated hereby.

Section 6.03 Notices. All notices, requests, consents, claims, demands, waivers and other communications hereunder are to be in writing and will be deemed to have been given: (a) when delivered by hand (with written confirmation of receipt); (b) when received by the addressee if sent by a nationally recognized overnight courier (receipt requested); (c) on the date sent by facsimile or e-mail of a PDF document (with confirmation of transmission) if sent during normal business hours of the recipient, and on the next Business Day if sent after normal business hours of the recipient; or (d) on the third day after the date mailed, by certified or registered mail, return receipt requested, postage prepaid. Such communications must be sent to the respective parties at the following addresses (or at such other address for a party as is specified in a notice given in accordance with this **Section 6.03**):

If to the Company:	74 W. Broad Street Suite 300 Bethlehem, PA 18018 Facsimile: 610.317.0998 Attn: Chief Executive Officer
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If to a Shareholder, to such Shareholder's respective mailing address as set

forth on **Schedule A**.

Section 6.04 Headings. The headings in this Agreement are inserted for convenience or reference only and are in no way intended to describe, interpret, define, or limit the scope, extent or intent of this Agreement or any provision of this Agreement.

Section 6.05 Severability. If any term or provision of this Agreement is held to be invalid, illegal or unenforceable under Applicable Law in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other term or provision of this Agreement or invalidate or render unenforceable such term or provision in any other jurisdiction. Upon such determination that any term or other provision is invalid, illegal or unenforceable, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the transactions contemplated hereby be consummated as originally contemplated to the greatest extent possible.

Section 6.06 Entire Agreement. This Agreement constitutes the sole and entire agreement of the parties to this Agreement with respect to the subject matter contained herein, and supersedes all prior and contemporaneous understandings, agreements, representations and warranties, both written and oral, with respect to such subject matter.

Section 6.07 Successors and Assigns; Assignment. Subject to the rights and restrictions on Transfers set forth in this Agreement, this Agreement will be binding upon and will inure to the benefit of the parties hereto and their respective permitted successors and permitted assigns.

Section 6.08 No Third-party Beneficiaries. This Agreement is for the sole benefit of the parties hereto (and their respective heirs, executors, administrators, successors and assigns) and nothing herein, express or implied, is intended to or will confer upon any other Person, including any creditor of the Company, any legal or equitable right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

Section 6.09 Amendment. No provision of this Agreement may be amended or modified except by an instrument in writing executed by the Company and Shareholders holding a majority of the issued and outstanding shares of capital stock of the Company, except that the Company may amend **Schedule A** from time to time to reflect the joinder of parties to this Agreement pursuant to an issuance or transfer of capital stock of the Company that is not in contravention of this Agreement, in which case such amendment of **Schedule A** will not require any action on the part of any of the Shareholders. Any such written amendment or modification will be binding upon the Company and each Shareholder.

Section 6.10 Waiver. No waiver by any party of any of the provisions hereof will be effective unless explicitly set forth in writing and signed by the party so waiving. No waiver by any party will operate or be construed as a waiver in respect of any failure, breach or default not expressly identified by such written waiver, whether of a similar or different character, and

whether occurring before or after that waiver. No failure to exercise, or delay in exercising, any right, remedy, power or privilege arising from this Agreement will operate or be construed as a waiver thereof, nor will any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. For the avoidance of doubt, nothing contained in this **Section 6.10** will diminish any of the explicit and implicit waivers described in this Agreement, including in, **Section 4.03(e)(v)**, and **Section 6.12** hereof.

Section 6.11 Governing Law. All issues and questions concerning the application, construction, validity, interpretation and enforcement of this Agreement are to be governed by and construed in accordance with the internal laws of the Commonwealth of Pennsylvania, without giving effect to any choice or conflict of law provision or rule (whether of the Commonwealth of Pennsylvania or any other jurisdiction).

Section 6.12 Waiver of Jury Trial. Each party hereto hereby acknowledges and agrees that any controversy which may arise under this Agreement is likely to involve complicated and difficult issues and, therefore, each such party irrevocably and unconditionally waives any right it may have to a trial by jury in respect of any legal action arising out of or relating to this Agreement or the transactions contemplated hereby.

Section 6.13 Equitable Remedies. Each party hereto acknowledges that a breach or threatened breach by such party of any of its obligations under this Agreement would give rise to irreparable harm to the other parties, for which monetary damages would not be an adequate remedy, and hereby agrees that in the event of a breach or a threatened breach by such party of any such obligations, each of the other parties hereto will, in addition to any and all other rights and remedies that may be available to them in respect of such breach, be entitled to equitable relief, including a temporary restraining order, an injunction, specific performance and any other relief that may be available from a court of competent jurisdiction (without any requirement to post bond).

Section 6.14 Remedies Cumulative. The rights and remedies under this Agreement are cumulative and are in addition to and not in substitution for any other rights and remedies available at law or in equity or otherwise.

Section 6.15 Counterparts. This Agreement may be executed in counterparts, each of which is to be deemed an original, but all of which together are to be deemed to be one and the same agreement. A signed copy of this Agreement delivered by facsimile, e-mail or other means of electronic transmission is to be deemed to have the same legal effect as delivery of an original signed copy of this Agreement.

Section 6.16 Legend. In addition to any other legend required by Applicable Law, all certificates representing issued and outstanding capital stock of the Company will bear a legend substantially in the following form:

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO A SHAREHOLDER AGREEMENT AMONG THE COMPANY AND ITS SHAREHOLDERS, A COPY OF WHICH IS ON FILE AT THE PRINCIPAL EXECUTIVE OFFICE OF THE COMPANY. NO TRANSFER, SALE, ASSIGNMENT, PLEDGE, HYPOTHECATION OR OTHER DISPOSITION OF THE SHARES REPRESENTED BY THIS CERTIFICATE MAY BE MADE EXCEPT IN ACCORDANCE WITH THE PROVISIONS OF SUCH SHAREHOLDER AGREEMENT.

THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER ANY OTHER APPLICABLE SECURITIES LAWS AND MAY NOT BE TRANSFERRED, SOLD, ASSIGNED, PLEDGED, HYPOTHECATED OR OTHERWISE DISPOSED EXCEPT (A) PURSUANT TO A REGISTRATION STATEMENT EFFECTIVE UNDER SUCH ACT AND LAWS, OR (B) PURSUANT TO AN EXEMPTION FROM REGISTRATION THEREUNDER.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first written above by their respective officers thereunto duly authorized.

The Company:

Saucon Holding Company

By: _____

Name:

Title:

SCHEDULE A
SHAREHOLDERS

Shareholder Name and Address
[NAME AND ADDRESS]
[NAME AND ADDRESS]
[NAME AND ADDRESS]

JOINDER TO SAUCON HOLDING SHAREHOLDER AGREEMENT

Reference is made to that certain Shareholder Agreement dated as of [EFFECTIVE DATE] (the “**Saucon Holding Shareholder Agreement**”) among Saucon Holding Company, a Pennsylvania corporation (the “**Company**”) and each Person identified on Schedule A thereto. Capitalized terms used in this Joinder to Saucon Holding Shareholder Agreement that are not defined herein have the respective meanings given them in the Saucon Holding Shareholder Agreement.

The undersigned person, being a holder of shares of capital stock of Saucon Holding Company, hereby joins and becomes a party to the Saucon Holding Shareholder Agreement as a Shareholder, with respect to any shares of capital stock now held or hereafter acquired by the undersigned, and hereby becomes bound by all of the terms, conditions and covenants therein as a Shareholder. The undersigned acknowledges that he, she or it has received a copy of the Saucon Holding Shareholder Agreement and has reviewed it.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Joinder to Saucon Holding Shareholder Agreement as of the date written below.

(signature of Shareholder)

(signature of Shareholder, if shares are held jointly)

(print name of Shareholder)

(print name of Shareholder, if shares are held jointly)

Date

Address for notices:

Acknowledged and accepted:

SAUCON HOLDING COMPANY

By: _____
Name:
Title:
Date:

6

Presentation to:

Pennsylvania Insurance Department

**Saucon Mutual Insurance Company
Valuation Analysis**

November 29, 2016

STONERIDGE
ADVISORS, LLC

Disclaimer

This summary is not a complete description of the analyses performed by StoneRidge but contains the material elements of its analyses. The preparation of a valuation analysis is a complex process and is not necessarily susceptible to partial analysis or summary description. In arriving at its valuation range, StoneRidge considered the results of all such analyses as a whole and did not attribute any particular weight to any analysis or factor considered by it. No company or transaction used in the analyses as a comparison is directly comparable to Saucon Mutual Insurance Company ("Saucon" or the "Company").

The analyses were prepared for purposes of providing a report to the Pennsylvania Insurance Department and do not purport to be appraisals or necessarily reflect the prices at which businesses or securities actually may be sold. In performing its analyses, StoneRidge made numerous assumptions with respect to industry performance, general business and economic conditions and other matters. The analyses performed by StoneRidge are not necessarily indicative of actual future results, which may be significantly more or less favorable than suggested by such analyses. Because such analyses are inherently subject to uncertainty, being based upon numerous factors or events beyond the control of the parties or their respective advisors, none of Saucon or StoneRidge or any other person assumes responsibility if future results are materially different from those forecast.

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I. Executive Summary

Situation Overview

- ▶ Saucon Mutual Insurance Company (“Saucon” or the “Company”) elected to explore a demutualization as a result of several factors including:
 - Lack of profitability of perpetual insurance product due to low interest rate environment; Saucon ceased writing new perpetual policies in 2005
 - Limited existing infrastructure and distribution network to re-enter direct insurance underwriting business
 - Pursuit of other strategic alternatives, such as a merger with a mutual partner, met with little success

- ▶ Saucon’s Board of Directors initially filed a plan of demutualization on September 2, 2014, has filed revised plans of demutualization with the Pennsylvania Insurance Department (the “Department”) and is considering filing another revised plan.

- ▶ StoneRidge Advisors, LLC (“StoneRidge”) has been engaged by the Pennsylvania Insurance Department to conduct an independent valuation analysis of Saucon using an appropriate methodology for a potential demutualization of the Company.

- ▶ This valuation analysis is not an analysis of any specific transaction or potential demutualization plan.

Process Overview

- ▶ As part of its due diligence and review of the Company, StoneRidge reviewed extensive information and performed other due diligence, including the following:
 - Reviewed the Company's audited statutory financials for 2010-2015
 - Reviewed information on the Department website
 - Reviewed information in Company's online data room
 - Met with three members of the Board of Directors and the CEO of the Company at Saucon headquarters to discuss the Company's business and future prospects
 - Had numerous calls and exchanged emails with the Chairman of the Company

- ▶ StoneRidge based its valuation primarily on the following valuation methodologies:
 - Sum of parts analysis
 - Discounted cash flow analysis

- ▶ Based upon the average of these two valuation methodologies, StoneRidge Advisors selected a valuation range for Saucon of between \$2.4 million and \$3.2 million.

- ▶ Additionally, StoneRidge considered comparable public companies and comparable M&A transactions. StoneRidge determined that these comparable analyses were not relevant because the lack of comparability to the specific circumstances of Saucon which has not issued new policies in the last 10 years and has focused on the perpetual homeowners insurance market.

II. Historical Financials

Historical Income Statement

Saucon Statutory Income Statements

	2010	2011	2012	2013	2014	2015	2016 YTD thru 9/30
Net premiums earned/(ceded)	(\$90,904)	(\$89,795)	(\$77,324)	(\$80,573)	(\$84,662)	(\$83,332)	(\$67,682)
Less underwriting deductions							
Losses incurred	\$31,966	\$123,340	\$92,931	\$96,475	\$144,001	\$36,606	\$318,675
Loss expenses incurred	9,245	22,657	29,032	52,155	37,757	25,524	54,041
Other underwriting expenses incurred	545,529	553,929	725,779	770,157	1,245,117	966,001	559,948
Net underwriting loss	(\$677,644)	(\$789,721)	(\$925,066)	(\$999,360)	(\$1,511,537)	(\$1,111,463)	(\$1,000,346)
Investment gain							
Net investment income earned	\$338,164	\$327,296	\$374,284	\$274,602	\$317,082	\$330,990	\$123,216
Net realized capital gains	730,124	738,679	786,079	989,233	1,280,772	916,980	589,123
Net investment gain	\$1,068,288	\$1,065,975	\$1,160,363	\$1,263,835	\$1,597,854	\$1,247,970	\$712,339
Other income	-	6,107	-	-	-	5,435	-
Agency reimbursement Income	29,489	-	18,720	30,751	82,139	67,150	31,539
Income before federal income tax	\$420,133	\$282,361	\$254,017	\$295,226	\$168,456	\$209,092	(\$256,468)
Federal income tax benefit	4,000	7,420	(3,236)	-	-	-	-
Net income	\$416,133	\$274,941	\$257,253	\$295,226	\$168,456	\$209,092	(\$256,468)
Surplus, beginning	\$13,344,106	\$14,077,298	\$13,894,648	\$14,506,527	\$16,434,269	\$16,733,609	\$15,860,583
(Decrease) Increase in unrealized gains	415,798	(486,902)	383,209	1,906,945	185,579	(1,234,158)	353,618
(Increase) Decrease in nonadmitted assets	(36,340)	(59,084)	44,292	11,093	9,580	(69,002)	(36,144)
(Increase) Decrease in deferred taxes	(62,399)	88,395	(72,875)	(285,522)	(64,275)	221,042	(46,891)
Surplus, ending	\$14,077,298	\$13,894,648	\$14,506,527	\$16,434,269	\$16,733,609	\$15,860,583	\$15,874,698

Source: Saucon audited financial statements; YTD statements not audited

Historical Balance Sheet

Saucon Statutory Balance Sheets

	As of December 31,					As of September 30,	
	2010	2011	2012	2013	2014	2015	2016
Admitted Assets							
Investments							
Bonds	\$1,699,380	\$1,654,521	\$1,477,101	\$902,219	\$656,544	\$555,521	\$605,426
Common Stocks	14,448,117	14,408,814	15,568,039	17,595,603	17,854,118	17,018,027	17,326,102
Total Investments	\$16,147,497	\$16,063,335	\$17,045,140	\$18,497,822	\$18,510,662	\$17,573,548	\$17,931,528
Cash and cash equivalents	978,345	661,453	399,277	1,073,632	1,485,389	1,358,369	1,463,938
Interest and dividends due and accrued	39,692	39,366	42,845	40,437	44,423	42,466	13,493
Reinsurance losses recoverable	3,646	7,949	2,500	17,614	1,241	-	5,610
Receivable from related party	-	197,206	181,105	155,797	100,517	61,260	20,365
Electronic data processing equipment, net	1,741	23,899	22,204	15,630	9,057	2,689	980
Other assets	1,491	-	5,963	5,963	5,963	5,963	5,963
Total Admitted Assets	\$17,172,412	\$16,993,208	\$17,699,034	\$19,806,895	\$20,157,252	\$19,044,295	\$19,441,877
Liabilities and Surplus							
Liabilities							
Loss reserves	\$19,000	\$88,127	\$120,000	\$55,401	\$86,401	\$41,500	\$345,000
Loss adjustment expenses	-	2,812,000	12,000,000	7,000,000	12,000,000	7,000,000	32,500,000
Unearned premiums	10,160	8,747	6,024	5,367	5,590	4,404	2,184
Amounts withheld/retained for account of others	-	10,965	5,983	5,275	8,039	6,637	4,404
Perpetual deposits reserved for policyholders	2,333,767	2,355,494	2,343,098	2,286,264	2,234,993	2,230,571	3,851
Deferred taxes	649,628	561,233	634,108	919,630	983,905	762,863	2,180,781
Accrued expenses	51,402	65,547	64,000	88,000	87,000	125,000	809,753
Federal income taxes payable	4,000	5,000	5,000	5,000	5,000	5,000	183,095
Ceded reinsurance premiums payable	25,000	-	-	-	-	-	4,874
Advance premium	-	-	-	-	-	-	-
Total liabilities	\$3,095,114	\$3,098,560	\$3,192,507	\$3,372,626	\$3,423,643	\$3,183,712	\$3,567,179
Surplus							
Unassigned funds- policyholder surplus	\$14,077,298	\$13,894,648	\$14,506,527	\$16,434,269	\$16,733,609	\$15,860,583	\$15,874,698
Total Liabilities and Surplus	\$17,172,412	\$16,993,208	\$17,699,034	\$19,806,895	\$20,157,252	\$19,044,295	\$19,441,877

Source: Saucon audited financial statements; YTD statements not audited

III. Valuation Analysis

Overview of Valuation Methodologies

Valuation Methodologies

Primary Methodologies:

- ▶ Captures the intrinsic value of the Company based on future cash flows generated by the operations of the entity
- ▶ Discounted management projections of net income for the business back to the present using a range of discount rates and business assumptions
- ▶ Projected cash flows for 60 years and calculated a terminal value as a net present value of 50% of surplus in Year 60
- ▶ Discount rates of 8.0% to 10.0% utilized based upon WACC analysis

DCF

- ▶ Adjusted statutory surplus to approximate fair market value as of September 30, 2016
- ▶ Estimated the unrecorded liabilities for Saucon, including a deferred tax liability and liability for future loss costs on perpetual policies
- ▶ Projected net investment income on existing deposits
- ▶ Estimated expenses of maintaining the insurance company to support the existing policyholders and discount to surplus for lack of liquidity

Sum of Parts

Other Considered Methodologies:

- ▶ Analysis of valuation multiples paid for similar insurance company transactions, as well as selected demutualization transactions
- ▶ May encompass premiums paid for synergies and gain of control, as well as certain market conditions present at the time of transaction
- ▶ Public market comparables were analyzed, but deemed not very relevant given the lack of comparability in light of Saucon's size and dormant business operations

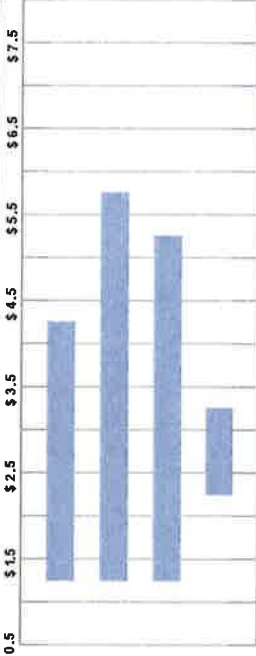
Comparable Analyses

Valuation Summary

Valuation Summary

(\$ in thousands)

	Selected Valuation Range			High	Estimated Equity Valuation Range (in millions)
	Low	Mid	High		
Discounted Cash Flow	\$1,027.6	\$2,208.8	\$4,164.8		
Sum of Parts	\$1,097.8	\$3,369.8	\$5,900.1		
Average Valuation Range	\$1,062.7	\$2,789.3	\$5,032.4		
Selected Valuation Range	\$2,370.9	\$2,789.3	\$3,207.7		



Note: Selected valuation range reflects 15.0% discount and premium to midpoint of average valuation range. Valuation is based on current market data at the time of analysis; valuation may materially differ based on market movements and economic conditions; see following pages for details on each valuation methodology

Sum of Parts Analysis

- ▶ A Sum of the Parts analysis yields a valuation range of approximately \$1.1 million to \$5.9 million.

Sum of Parts Valuation Range

	(Scenario 1) Low	(Scenario 2) Medium	(Scenario 3) High
Surplus as of September 30, 2016	\$15,874,698	\$15,874,698	\$15,874,698
Discount for Regulated Entity ⁽¹⁾	(\$2,381,205)	(\$1,984,337)	(\$1,587,470)
Estimated Net Future Liability of Existing Policies ⁽²⁾	(\$1,853,367)	(\$1,853,367)	(\$1,853,367)
Deposit Net Investment Income Offset ⁽³⁾	\$1,107,551	\$1,107,551	\$1,107,551
Deferred Tax Liability	(\$1,488,725)	(\$1,488,725)	(\$1,488,725)
Net Present Value of Maintaining Infrastructure ⁽⁴⁾	(\$10,161,157)	(\$8,285,993)	(\$6,152,624)
Pro Forma Value	\$1,097,794	\$3,369,826	\$5,900,062

(1) Assumes discount of 15.0% under Scenario 1, 12.5% under Scenario 2, and 10.0% under Scenario 3, based upon lack of liquidity due to need to maintain surplus in insurance company

(2) Projected out 60 years at 9.0% discount rate. See page 26 for detailed calculation

(3) Net investment income projected for 60 years. See page 27 for detailed calculation

(4) NPV of management expense projected for 60 years

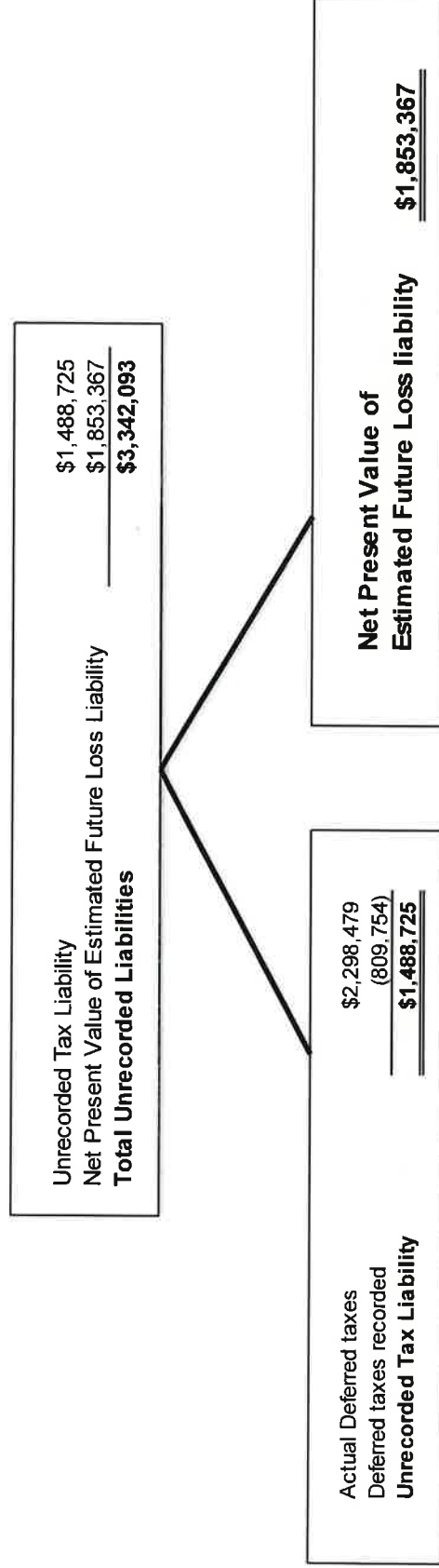
Source: Historical statutory filings and financial trends, management commentary and analyses

Sum of the Parts Analysis

- ▶ In approaching a Sum of the Parts analysis, we have applied three categories of discounts to surplus to arrive at an adjusted book value, including:
 - Potential liabilities Saucon may face that are not currently reflected on the Company's balance sheet
 - Present value of ongoing losses to maintain existing infrastructure

- ▶ Saucon's capital and surplus is subject to two meaningful off-balance sheet liabilities that decrease its valuation:
 - The Company's perpetual exposure to its legacy product. For purposes of this valuation, we assume Saucon's perpetual policyholder base continues to shrink at the historical rate and that associated losses incurred, based on a Pennsylvania industry average, continue at a uniform rate.
 - While the Company's investment portfolio has experienced significant appreciation, tax liabilities associated with these investment gains are currently understated. As such, a deferred tax liability was factored into our "Sum of the Parts" valuation.

Overview of Saucon Liabilities



Estimated Future Liability of Perpetual Policies

- ▶ To estimate the present value of the future liability of Saucon's outstanding perpetual policies we have made a number of assumptions, namely:
 - Deposit premiums shrink at an annual rate in line with historical rates of perpetual policy expiration (i.e. 3.0%)
 - An annual premium equivalent was calculated for each year based on projected premium deposits (see page 26 for details)
 - Losses for each year were calculated as a percentage of annual premium equivalent. Loss and LAE ratios are based on a Pennsylvania industry average of 60.5%

Summary Analysis of Perpetual Policy Liability

Underlying Assumptions:

Perpetual Policyholder Deposits as of September 30, 2016	\$2,180,781
Term Premium Equivalent (Perpetual Policies with Deposit)	\$229,011
Term Premium Equivalent (Perpetual Policies without a Deposit) (est.)	\$171,758
Total Term Premium Equivalent for Year 1	\$400,769
Industry Average Loss and LAE Ratio	60.50%
Cancellation Rate (Deposits Returned)	3.0%
Discount Rate	9.0%
Net Present Value of Estimated Future Loss liability	\$1,853,367

Source: Saucon financials and management representations
 Note: See page 26 in Appendix for detail on liability analysis

Estimated Future Deferred Tax Liability

- ▶ The Company has represented that deferred taxes for Saucon have been recorded at 15% rather than the combined effective tax rate of 41.5%, implying a deferred tax liability of approximately \$1.5 million.

Calculation of Deferred Tax Liability

Pennsylvania Corporate Tax Rate	10.0%
Benefit based on 35.0% Federal Tax Rate	-3.5%
Federal Tax rate	35.0%
Total Effective Tax rate	41.5%

Unrealized Appreciation on Investments as of 9/30/16	\$5,539,372
Total Effective Tax rate	x 41.5%
Actual Deferred taxes	\$2,298,479
Deferred taxes recorded	(809,754)
Unrecorded Tax Liability	\$1,488,725

Cost of Maintaining Infrastructure

- ▶ StoneRidge considered three underwriting expense scenarios to arrive at a Sum of the Parts valuation range:
 - **Scenario 1:** Assumes expense components grow at 3.0% annual inflation to a maximum of \$1.25 million
 - **Scenario 2:** Assumes expense remains fixed at \$750,000 per year
 - **Scenario 3:** Assumes expense declines at a projected rate of 5.0% to a minimum of \$500,000 annual underwriting expense as the Company moves to a captive manager

Underwriting Expense Scenario Analysis

Year	Total Underwriting Expenses			Year	Total Underwriting Expenses		
	Scenario 1	Scenario 2	Scenario 3		Scenario 1	Scenario 2	Scenario 3
1	767,103	750,000	712,500	31	1,250,000	750,000	500,000
2	784,725	750,000	676,875	32	1,250,000	750,000	500,000
3	802,883	750,000	643,031	33	1,250,000	750,000	500,000
4	746,594	750,000	610,880	34	1,250,000	750,000	500,000
5	765,875	750,000	580,336	35	1,250,000	750,000	500,000
6	785,744	750,000	551,319	36	1,250,000	750,000	500,000
7	806,221	750,000	523,753	37	1,250,000	750,000	500,000
8	827,325	750,000	500,000	38	1,250,000	750,000	500,000
9	849,075	750,000	500,000	39	1,250,000	750,000	500,000
10	871,493	750,000	500,000	40	1,250,000	750,000	500,000
11	894,600	750,000	500,000	41	1,250,000	750,000	500,000
12	918,418	750,000	500,000	42	1,250,000	750,000	500,000
13	942,971	750,000	500,000	43	1,250,000	750,000	500,000
14	968,281	750,000	500,000	44	1,250,000	750,000	500,000
15	994,374	750,000	500,000	45	1,250,000	750,000	500,000
16	1,021,274	750,000	500,000	46	1,250,000	750,000	500,000
17	1,049,008	750,000	500,000	47	1,250,000	750,000	500,000
18	1,077,603	750,000	500,000	48	1,250,000	750,000	500,000
19	1,107,087	750,000	500,000	49	1,250,000	750,000	500,000
20	1,137,489	750,000	500,000	50	1,250,000	750,000	500,000
21	1,168,838	750,000	500,000	51	1,250,000	750,000	500,000
22	1,201,166	750,000	500,000	52	1,250,000	750,000	500,000
23	1,234,505	750,000	500,000	53	1,250,000	750,000	500,000
24	1,250,000	750,000	500,000	54	1,250,000	750,000	500,000
25	1,250,000	750,000	500,000	55	1,250,000	750,000	500,000
26	1,250,000	750,000	500,000	56	1,250,000	750,000	500,000
27	1,250,000	750,000	500,000	57	1,250,000	750,000	500,000
28	1,250,000	750,000	500,000	58	1,250,000	750,000	500,000
29	1,250,000	750,000	500,000	59	1,250,000	750,000	500,000
30	1,250,000	750,000	500,000	60	1,250,000	750,000	500,000
				NPV @ 9.0%	(\$10,161,157)	(\$8,285,993)	(\$6,152,624)

Note: See appendix for underwriting expense component detail for Scenario 1; depreciation expense omitted from underwriting expense

DCF Assumptions & Discussion

- ▶ As part of its discounted cash flow valuation analysis, StoneRidge partially relied on management's projections of underwriting losses, historical and projected cancellation rates, and investment returns among other assumptions.
- ▶ StoneRidge analyzed three cases of different underwriting expense scenarios:
 - Components of expense grow at annual inflation rate of 3.0%, subject to a maximum of \$1.25 million
 - Total underwriting expense assumed to be flat a \$750,000 per year
 - Total underwriting expense declines at 5.0% annual rate as Saucon tightens expense structure; underwriting expense floor of \$500,000
- ▶ Other assumptions based upon the Company's estimates and projections include:
 - Perpetual policies without a deposit entail approximately 75% of outstanding perpetual policies
 - An annual policy cancellation rate of 3.0%, based on historical averages
 - Effective Loss & LAE ratio of approximately 60.0% including reinsurance costs, in line with the industry average of 60.5%
 - 6.5% blended investment return on both policy deposits and surplus
 - Annual income/management fee to Saucon from its agency subsidiary assumed flat at \$45,000
- ▶ The discounted cash flow valuation analysis assumed that projected net income is representative of the free cash flow of the business; other assumptions included:
 - 8.0% - 10.0% range of discount rates
 - Terminal value assumes net present value of 50% of surplus in Year 60 discounted at 9.0%

DCF Valuation Summary: Inflation Case

Discounted Cash Flow Model

	Projected																					
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036		
Statutory net income ⁽¹⁾	\$173,777	\$159,361	\$144,346	\$128,716	\$187,459	\$170,557	\$152,995	\$134,757	\$115,824	\$96,180												
Distribution rate	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%												
Discounted cash flow	\$159,428	\$134,131	\$111,461	\$91,186	\$121,635	\$101,697	\$83,694	\$67,630	\$53,329	\$40,628												
Statutory net income ⁽¹⁾	\$75,805	\$54,680	\$32,784	\$10,096	(\$13,406)	(\$38,561)	(\$66,112)	(\$96,228)	(\$129,092)	(\$164,897)												
Distribution rate	100.0%	100.0%	100.0%	100.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%												
Discounted cash flow	\$29,377	\$19,441	\$10,693	\$3,021	\$0	\$0	\$0	\$0	\$0	\$0												
Statutory net income ⁽¹⁾	(\$203,851)	(\$246,174)	(\$292,102)	(\$341,884)	(\$376,899)	(\$398,597)	(\$421,656)	(\$446,160)	(\$472,195)	(\$499,853)												
Distribution rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%												
Discounted cash flow	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0												
Statutory net income ⁽¹⁾	(\$529,233)	(\$560,439)	(\$593,560)	(\$628,775)	(\$666,146)	(\$705,827)	(\$747,957)	(\$792,685)	(\$840,168)	(\$890,574)												
Distribution rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%												
Discounted cash flow	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0												
Statutory net income ⁽¹⁾	(\$944,079)	(\$1,000,874)	(\$1,061,156)	(\$1,125,139)	(\$1,193,047)	(\$1,265,119)	(\$1,341,609)	(\$1,422,785)	(\$1,508,933)	(\$1,600,355)												
Distribution rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%												
Discounted cash flow	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0												
Statutory net income ⁽¹⁾	(\$1,697,373)	(\$1,800,327)	(\$1,909,578)	(\$2,025,511)	(\$2,148,532)	(\$2,279,074)	(\$2,417,594)	(\$2,564,579)	(\$2,720,545)	(\$2,886,039)												
Distribution rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%												
Discounted cash flow	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0												
Sum of cash flows																						
Terminal Value																						
DCF Enterprise Value																						

(1) Includes assumed \$45,000 of agency net income; income is not tax-effected

Source: Management projections, historical statutory filings, and Company management commentary

Note: Analysis assumes 3% annual underwriting expense inflation; cost of equity is computed based on the CAPM formula; negative terminal value omitted; based on net present value of 50% of Year 60 surplus at 9.0% discount rate; analysis assumes that all cash flows are available for distribution

DCF Valuation Summary: Flat Expenses

Discounted Cash Flow Model

	Projected											
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026		
Statutory net income ⁽¹⁾	\$173,777	\$176,464	\$179,071	\$181,600	\$184,052	\$186,431	\$188,739	\$190,978	\$193,149	\$195,255		
Distribution rate	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%		
Discounted cash flow	\$159,428	\$148,526	\$138,276	\$128,650	\$119,621	\$111,163	\$103,247	\$95,845	\$88,931	\$82,478		
	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036		
Statutory net income ⁽¹⁾	\$197,298	\$199,280	\$201,202	\$203,067	\$204,876	\$206,630	\$208,332	\$209,983	\$211,584	\$213,137		
Distribution rate	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%		
Discounted cash flow	\$76,460	\$70,851	\$65,628	\$60,767	\$56,246	\$52,044	\$48,140	\$44,515	\$41,151	\$38,030		
	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046		
Statutory net income ⁽¹⁾	\$214,644	\$216,105	\$217,523	\$218,898	\$220,231	\$221,525	\$222,780	\$223,997	\$225,178	\$226,323		
Distribution rate	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%		
Discounted cash flow	\$35,137	\$32,455	\$29,971	\$27,670	\$25,540	\$23,569	\$21,745	\$20,059	\$18,499	\$17,058		
	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056		
Statutory net income ⁽¹⁾	\$227,434	\$228,512	\$229,557	\$230,571	\$231,555	\$232,509	\$233,434	\$234,332	\$235,203	\$236,047		
Distribution rate	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%		
Discounted cash flow	\$15,727	\$14,496	\$13,360	\$12,311	\$11,343	\$10,449	\$9,625	\$8,864	\$8,162	\$7,515		
	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066		
Statutory net income ⁽¹⁾	\$236,867	\$237,661	\$238,432	\$239,180	\$239,905	\$240,609	\$241,291	\$241,953	\$242,595	\$243,218		
Distribution rate	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%		
Discounted cash flow	\$6,919	\$6,369	\$5,862	\$5,395	\$4,964	\$4,568	\$4,202	\$3,866	\$3,556	\$3,271		
	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076		
Statutory net income ⁽¹⁾	\$243,822	\$244,408	\$244,977	\$245,528	\$246,063	\$246,582	\$247,085	\$247,573	\$248,047	\$248,506		
Distribution rate	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%		
Discounted cash flow	\$3,008	\$2,767	\$2,544	\$2,339	\$2,151	\$1,977	\$1,818	\$1,671	\$1,536	\$1,412		
Sum of cash flows	\$2,163,745											
Terminal Value	\$45,091											
DCF Enterprise Value	\$2,208,835											

(1) Includes assumed \$45,000 of agency net income; income is not tax-effected

Source: Management projections, historical statutory filings, and Company management commentary

Note: Analysis assumes flat \$750k underwriting expense over the period; cost of equity is computed based on the CAPM formula; terminal value calculated as net present value of 50% of Year 60 surplus at 9.0% discount rate; analysis assumes that all cash flows are available for distribution

DCF Valuation Summary: Reduced Expenses

Discounted Cash Flow Model

	Projected																					
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036		
Statutory net income ⁽¹⁾	\$173,777	\$213,964	\$252,196	\$288,568	\$323,173	\$356,096	\$387,420	\$417,225	\$443,149	\$445,255												
Distribution rate	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%												
Discounted cash flow	\$159,428	\$160,089	\$194,742	\$204,429	\$210,040	\$212,328	\$211,932	\$209,391	\$204,038	\$188,081												
2027	2028	2029	2030	2031	2032	2033	2034	2035	2036													
Statutory net income ⁽¹⁾	\$447,298	\$449,280	\$451,202	\$453,067	\$454,876	\$456,630	\$458,332	\$459,983	\$461,584	\$463,137												
Distribution rate	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%												
Discounted cash flow	\$173,343	\$159,735	\$147,173	\$135,579	\$124,881	\$115,011	\$105,908	\$97,513	\$89,773	\$82,638												
2037	2038	2039	2040	2041	2042	2043	2044	2045	2046													
Statutory net income ⁽¹⁾	\$464,644	\$466,105	\$467,523	\$468,888	\$470,231	\$471,525	\$472,780	\$473,997	\$475,178	\$476,323												
Distribution rate	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%												
Discounted cash flow	\$76,061	\$70,000	\$64,416	\$59,271	\$54,532	\$50,167	\$46,147	\$42,446	\$39,038	\$35,901												
2047	2048	2049	2050	2051	2052	2053	2054	2055	2056													
Statutory net income ⁽¹⁾	\$477,434	\$478,512	\$479,557	\$480,571	\$481,555	\$482,509	\$483,434	\$484,332	\$485,203	\$486,047												
Distribution rate	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%												
Discounted cash flow	\$33,014	\$30,356	\$27,910	\$25,660	\$23,589	\$21,685	\$19,932	\$18,320	\$16,838	\$15,475												
2057	2058	2059	2060	2061	2062	2063	2064	2065	2066													
Statutory net income ⁽¹⁾	\$486,867	\$487,661	\$488,432	\$489,180	\$489,905	\$490,609	\$491,291	\$491,953	\$492,595	\$493,218												
Distribution rate	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%												
Discounted cash flow	\$14,221	\$13,068	\$12,008	\$11,033	\$10,137	\$9,314	\$8,556	\$7,861	\$7,221	\$6,633												
2067	2068	2069	2070	2071	2072	2073	2074	2075	2076													
Statutory net income ⁽¹⁾	\$493,822	\$494,408	\$494,977	\$495,528	\$496,063	\$496,582	\$497,085	\$497,573	\$498,047	\$498,506												
Distribution rate	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%												
Discounted cash flow	\$6,093	\$5,596	\$5,140	\$4,721	\$4,336	\$3,982	\$3,657	\$3,358	\$3,084	\$2,832												
Sum of cash flows	\$4,119,661																					
Terminal Value	\$45,091																					
DCF Enterprise Value	\$4,164,751																					

(1) Includes assumed \$45,000 of agency net income; income is not tax-effected

Source: Management projections, historical statutory filings, and Company management commentary

Note: Analysis assumes 5.0% decline in underwriting expenses to a minimum \$500k; cost of equity is computed based on the CAPM formula; terminal value calculated as net present value of 50% of Year 60 surplus at 9.0% discount rate; analysis assumes that all cash flows are available for distribution

DCF Valuation Summary: Sensitivity Analyses

Scenario 1: Inflation Case

Cost of equity	Enterprise Value
8.00%	\$1,076,073
9.00%	\$1,027,551
10.00%	\$982,443

Scenario 2 – Flat Expenses

Cost of equity	Enterprise Value
8.00%	\$2,491,468
9.00%	\$2,208,835
10.00%	\$1,981,295

Scenario 3 – Reduced Expenses

Cost of equity	Enterprise Value
8.00%	\$4,757,534
9.00%	\$4,164,751
10.00%	\$3,688,001

IV. Appendices

M&A Transaction Comparables

Precedent Pennsylvania Insurance Company Transactions

(\$ in thousands)

Announcement Date	Buyer	Target	Gross Offering Proceeds			Surplus	Implied Enterprise Value / Statutory Surplus		
			Minimum	Midpoint	Maximum		Minimum	Midpoint	Maximum
9/2/2009	Penn Millers Holding Corporation	Penn Millers Mutual	\$45,050.0	\$53,000.0	\$60,950.0	\$44,188.0	1.02x	1.20x	1.38x
10/29/2008	ProAssurance Corporation (NYSE:PRA)	Podiatry Insurance Company of America (PICA)	135,000.0	135,000.0	135,000.0	75,043.0	1.80x	1.80x	1.80x
9/9/2008	Mutual Benefit Insurance Company	Select Risk Insurance Company	NA	NA	NA	NA	NA	NA	NA
6/7/2008	Mutual Management Company, LLC	Philanthropic Mutual Fire Insurance Company	NA	NA	NA	NA	NA	NA	NA
6/7/2008	Hanover Fire Holdings, Inc.	Hanover Mutual Fire Insurance Co.	NA	NA	NA	NA	NA	NA	NA
1/20/2006	Eastern Insurance Holdings, Inc. (NasdaqGS:EIHL)	Educators Mutual Life Insurance Company	55,250.0	65,000.0	74,750.0	56,691.0	0.97x	1.15x	1.32x
9/4/2003	Donegal Group Inc.	Le Mars Mutual Insurance Company of Iowa	8,200.0	8,200.0	8,200.0	7,200.0	1.14x	1.14x	1.14x
1/25/1989	Mercer Insurance Group, Inc.	Mercer Mutual Insurance Company	25,100.0	29,500.0	33,900.0	21,323.0	1.18x	1.38x	1.59x
1/15/1987	Old Guard Group, Inc.	Old Guard Mutual	28,535.0	33,570.0	38,606.0	30,265.0	0.94x	1.11x	1.28x

All transactions

Mean:	1.18x
Median:	1.08x
High:	1.80x
Low:	0.94x

Public Market Comparables – Personal Lines

Publicly-Traded Comparable Companies

Company	Price 11/29/2016	Dividend Yield	Price Change		Market Cap	P/E Multiples		Price / BV	Price / TBV	ROAE		Debt / Total Cap	Market Cap- Adjusted Debt / Total Cap
			1 Month	1 Year		LTM	2016			2017	2016			2017
Donegal Group Inc.	\$16.20	0.0%	7.2%	16.0%	\$431	16.6x	15.4x	12.5x	1.04x	1.04x	6.5%	7.7%	15.5%
Federated National Holding Company	17.71	1.8%	0.3%	-39.1%	244	8.6x	6.2x	36.9x	1.04x	1.04x	15.6%	2.4%	2.0%
HCI Group, Inc.	33.65	3.6%	27.2%	-9.7%	350	10.8x	5.4x	20.5x	1.49x	1.49x	24.7%	5.8%	28.3%
Heritage Insurance Holdings, Inc.	14.91	1.6%	27.7%	-34.3%	454	7.4x	5.0x	15.2x	1.23x	1.56x	22.2%	6.4%	0.0%
Kingstone Companies, Inc.	12.70	2.0%	23.3%	27.1%	100	12.9x	13.7x	11.5x	1.83x	1.89x	12.7%	13.5%	0.0%
Safety Insurance Group Inc.	70.75	3.9%	6.2%	26.0%	1,072	18.3x	NM	17.7x	1.64x	1.64x	NM	9.7%	0.0%
State Auto Financial Corp.	25.49	1.5%	10.8%	9.4%	1,062	NM	18.6x	NM	1.29x	1.29x	6.8%	NM	10.3%
United Insurance Holdings Corp.	13.88	1.8%	-0.3%	-25.9%	298	8.8x	14.0x	33.4x	1.20x	1.28x	8.3%	3.3%	7.8%
Universal Insurance Holdings Inc.	24.65	2.8%	17.9%	21.8%	864	7.6x	8.6x	9.2x	2.52x	2.52x	25.8%	19.9%	4.4%
Mean:		2.1%	13.4%	-1.0%		11.4x	10.9x	19.6x	1.48x	1.53x	15.3%	8.6%	7.3%
Median:		1.8%	10.8%	9.4%		9.8x	11.1x	16.5x	1.29x	1.49x	14.1%	7.0%	2.0%

(1) Earnings metrics exclude realized investment gains.

(2) Book value metrics exclude FAS 115.

(3) Excluding market capitalization and total capitalization, all metrics based on a diluted share count.

Weighted Average Cost of Capital Calculation

Cost of Equity

$$K_e = R_f + \beta * (\text{equity risk premium})$$

Risk free rate (Rf)	2.21%
Estimated unlevered beta	0.95
Implied levered beta (β)	0.95
Equity risk premium	6.00%
Additional risk premium for size	1.00%
Cost of equity	9.85%

Weighted Average Cost of Capital (WACC)

After-tax cost of debt	4.69%
Debt weighting	7.50%
Cost of equity	9.85%
Equity weighting	92.50%
WACC	9.46%

Cost of Equity Sensitivity

	0.85	0.95	1.05
Unlevered beta	0.85	0.95	1.05
Risk free rate	2.71%	9.15%	9.89%
Equity risk premium	2.21%	8.69%	9.43%
WACC	1.71%	8.22%	8.96%
Enterprise WACC			9.70%

Source: Public market data, equity research, and Company management's commentary
 Note: The risk free rate was based on the yield of a 10-year US treasury security; beta was derived by assessing the Company's peers; market risk premium has historically ranged between 5.5%-6.0% excluding additional risk for size of enterprise and industry

Estimated Future Liability of Perpetual Policies

Projected Runoff and Associated Losses of Existing Perpetual Policy Base

Year	Deposit Premiums	Annual Premium Equivalent	Loss & LAE	Year	Deposit Premiums	Annual Premium Equivalent	Loss & LAE
1	\$2,180,781	\$400,769	\$222,607	31	901,555	165,682	89,267
2	2,180,781	400,769	215,929	32	874,509	160,711	86,589
3	2,115,358	388,746	209,451	33	848,273	155,890	83,991
4	2,051,897	377,084	203,168	34	822,825	151,213	81,472
5	1,990,340	365,771	197,073	35	798,140	146,677	79,028
6	1,930,630	354,798	191,161	36	774,196	142,277	76,657
7	1,872,711	344,154	185,426	37	750,970	138,008	74,357
8	1,816,530	333,830	179,863	38	728,441	133,868	72,126
9	1,762,034	323,815	174,467	39	706,588	129,852	69,963
10	1,709,173	314,100	169,233	40	685,390	125,956	67,864
11	1,657,897	304,677	164,156	41	664,829	122,178	65,828
12	1,608,161	295,537	159,231	42	644,884	118,512	63,853
13	1,559,916	286,671	154,454	43	625,537	114,957	61,937
14	1,513,118	278,071	149,821	44	606,771	111,508	60,079
15	1,467,725	269,729	145,326	45	588,568	108,163	58,277
16	1,423,693	261,637	140,966	46	570,911	104,918	56,529
17	1,380,982	253,788	136,737	47	553,784	101,771	54,833
18	1,339,553	246,174	132,635	48	537,170	98,718	53,188
19	1,299,366	238,789	128,656	49	521,055	95,756	51,592
20	1,260,385	231,625	124,797	50	505,423	92,883	50,044
21	1,222,574	224,676	121,053	51	490,261	90,097	48,543
22	1,185,896	217,936	117,421	52	475,553	87,394	47,087
23	1,150,319	211,398	113,898	53	461,286	84,772	45,674
24	1,115,810	205,056	110,482	54	447,448	82,229	44,304
25	1,082,336	198,904	107,167	55	434,024	79,762	42,975
26	1,049,866	192,937	103,952	56	421,003	77,369	41,686
27	1,018,370	187,149	100,833	57	408,373	75,048	40,435
28	987,818	181,535	97,808	58	396,122	72,797	39,222
29	958,184	176,089	94,874	59	384,239	70,613	38,045
30	929,438	170,806	92,028	60	372,711	68,494	36,904

Estimated Net Investment Income on Deposits

Projected Net Investment Income on Deposits

Year	Investment Income on Deposits	Deposit Investment Expense	Net Investment Income	Year	Investment Income on Deposits	Deposit Investment Expense	Net Investment Income
1	\$141,751	\$8,723	\$133,028	31	\$56,843	\$3,498	\$53,345
2	\$137,498	\$8,461	\$129,037	32	\$55,138	\$3,393	\$51,745
3	\$133,373	\$8,208	\$125,166	33	\$53,484	\$3,291	\$50,192
4	\$129,372	\$7,961	\$121,411	34	\$51,879	\$3,193	\$48,687
5	\$125,491	\$7,723	\$117,768	35	\$50,323	\$3,097	\$47,226
6	\$121,726	\$7,491	\$114,235	36	\$48,813	\$3,004	\$45,809
7	\$118,074	\$7,266	\$110,808	37	\$47,349	\$2,914	\$44,435
8	\$114,532	\$7,048	\$107,484	38	\$45,928	\$2,826	\$43,102
9	\$111,096	\$6,837	\$104,260	39	\$44,550	\$2,742	\$41,809
10	\$107,763	\$6,632	\$101,132	40	\$43,214	\$2,659	\$40,555
11	\$104,530	\$6,433	\$98,098	41	\$41,917	\$2,580	\$39,338
12	\$101,395	\$6,240	\$95,155	42	\$40,660	\$2,502	\$38,158
13	\$98,353	\$6,052	\$92,300	43	\$39,440	\$2,427	\$37,013
14	\$95,402	\$5,871	\$89,531	44	\$38,257	\$2,354	\$35,903
15	\$92,540	\$5,695	\$86,845	45	\$37,109	\$2,284	\$34,826
16	\$89,764	\$5,524	\$84,240	46	\$35,996	\$2,215	\$33,781
17	\$87,071	\$5,358	\$81,713	47	\$34,916	\$2,149	\$32,767
18	\$84,459	\$5,197	\$79,261	48	\$33,869	\$2,084	\$31,784
19	\$81,925	\$5,042	\$76,883	49	\$32,853	\$2,022	\$30,831
20	\$79,467	\$4,890	\$74,577	50	\$31,867	\$1,961	\$29,906
21	\$77,083	\$4,744	\$72,340	51	\$30,911	\$1,902	\$29,009
22	\$74,771	\$4,601	\$70,169	52	\$29,984	\$1,845	\$28,138
23	\$72,528	\$4,463	\$68,064	53	\$29,084	\$1,790	\$27,294
24	\$70,352	\$4,329	\$66,022	54	\$28,212	\$1,736	\$26,475
25	\$68,241	\$4,199	\$64,042	55	\$27,365	\$1,684	\$25,681
26	\$66,194	\$4,073	\$62,121	56	\$26,544	\$1,633	\$24,911
27	\$64,208	\$3,951	\$60,257	57	\$25,748	\$1,584	\$24,163
28	\$62,282	\$3,833	\$58,449	58	\$24,976	\$1,537	\$23,439
29	\$60,413	\$3,718	\$56,696	59	\$24,226	\$1,491	\$22,735
30	\$58,601	\$3,606	\$54,995	60	\$23,499	\$1,446	\$22,053

Expense Components

Scenario 1 - Underwriting Expense Component Detail

Year	Boards & Bureaus	Director Fees	Employee Benefits	Insurance D&O	Professional Fees	Software	Office Expense	Rent	Salaries	Contracted Services	Pennsylvania DOJ Exam	Misc.	Total
2016	\$17,500	\$77,000	\$21,500	\$142,900	\$62,000	\$25,000	\$36,400	\$67,500	\$243,500	\$35,000	\$11,700	\$10,000	\$750,000
1	18,025	77,770	22,575	142,900	63,860	25,750	37,492	69,525	250,805	36,050	12,051	10,300	767,103
2	18,566	78,548	23,704	142,900	65,776	26,523	38,617	71,611	258,329	37,132	12,413	10,609	784,725
3	19,123	79,333	24,889	142,900	67,749	27,318	39,775	73,759	266,079	38,245	12,785	10,927	802,883
4	19,696	80,127	26,133	67,900	69,782	28,138	40,969	75,972	274,061	39,393	13,168	11,255	746,594
5	20,287	80,928	27,440	67,900	71,875	28,982	42,198	78,251	282,283	40,575	13,564	11,593	765,875
6	20,896	81,737	28,812	67,900	74,031	29,851	43,464	80,599	290,752	41,792	13,970	11,941	785,744
7	21,523	82,554	30,253	67,900	76,252	30,747	44,767	83,016	299,474	43,046	14,390	12,299	806,221
8	22,168	83,380	31,765	67,900	78,540	31,669	46,110	85,507	308,459	44,337	14,821	12,668	827,325
9	22,834	84,214	33,354	67,900	80,896	32,619	47,494	88,072	317,712	45,667	15,266	13,048	849,075
10	23,519	85,056	35,021	67,900	83,323	33,598	48,919	90,714	327,244	47,037	15,724	13,439	871,493

Source: Company data; based upon budget for 2016 excluding any demutualization-related costs

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Dear Member:

As a member of Saucon Mutual Insurance Company, you are receiving the accompanying Member Information Statement, Proxy Statement and Offering Document in connection with a Special Meeting of the members of Saucon Mutual. The Special Meeting will be held on [DATE], 2017.

On March 22, 2017, the Board of Directors of Saucon Mutual approved a Third Amended and Restated Alternative Plan of Conversion (which this document refers to as the Plan of Conversion). The Plan of Conversion and certain related documents were then filed with the Pennsylvania Insurance Department for its approval on April 3, 2017. Subsequently, on [DATE], the Pennsylvania Insurance Department approved the Plan of Conversion and certain related filings and transactions. The transactions contemplated by the Plan of Conversion have not yet closed, and cannot close until the Plan of Conversion is approved by the vote of at least two-thirds of the members of Saucon Mutual that are cast at the Special Meeting.

At the Special Meeting, we are seeking the members' approval of Saucon Mutual's conversion from a mutual insurance company to a stock insurance company and related amendments to Saucon Mutual's articles of incorporation.

Saucon Mutual's Board of Directors has approved and adopted the Plan of Conversion and recommends that you vote:

"FOR" the adoption of the Plan of Conversion; and

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

Saucon Mutual's Board of Directors wishes to reward the members for their loyalty to the company, and give them an opportunity to receive cash payments and other consideration, or alternatively to become shareholders of the new holding company, while leaving the policies in force. This proposed transaction would also result in Saucon Mutual making a \$500,000 charitable contribution in furtherance of the company's ongoing commitment to the community.

The transactions contemplated by the Plan of Conversion will give you the right to either receive "Member Compensation" which is described below, or subscribe for shares of Saucon Holding (the holding company being organized to acquire the shares of the stock insurance company into which Saucon Mutual is to be converted) in lieu of receiving the Member Compensation.

Your Member Compensation (which you would receive following the closing of the transactions contemplated by the Plan of Conversion if you do not subscribe for shares of Saucon Holding) would consist of:

A total cash payment of \$(AMOUNT)

This will be comprised of a \$(AMOUNT) return of deposit and a \$(AMOUNT) payment in recognition of your loyalty to Saucon Mutual. In addition, an indexed inflation-protection endorsement will continue for the life of your policy with no further deposits

required from you. **[FOR PERPETUAL POLICYHOLDERS ONLY:** The balance of your deposit will be returnable in accordance with policy terms.]

[This section is a sample individual compensation for a perpetual policyholder. It will be individualized for each policyholder. This section will be adjusted accordingly for non-perpetual policyholders].

If you decide to subscribe for the shares of Saucon Holding, you will not receive Member Compensation but would instead be required to sign and return certain documents and tender the subscription price for the shares for which you would be subscribing, all by the requisite deadline. The offering of the shares of Saucon Holding is described more fully in the Member Information Statement, Proxy Statement and Offering Document. An investment in the shares of Saucon Holding is subject to significant risks, some of which are described in that document. Please note that if you decide to subscribe for the shares of Saucon Holding rather than receiving Member Compensation, the deadline to sign and return the shares and tender the subscription price is earlier than the deadline to return the proxy card.

The enclosed Member Information Statement, Proxy Statement and Offering Document summarizes the important features of the Plan of Conversion, such as the Member Consideration that you may receive as a result of the transactions contemplated by the Plan of Conversion, and the terms of the offering for shares of Saucon Holding that you may choose to participate in in lieu of receiving Member Consideration. A copy of the Plan of Conversion is also enclosed. We urge you to read these materials carefully.

You can vote (1) by attending the Special Meeting and voting in person or (2) by completing and returning the enclosed proxy card. Please see the Voting Instructions for more information.

If you have any questions, please contact Stephen Bajan, the Chief Executive Officer of Saucon Mutual, at 74 West Broad Street, Suite 300, Bethlehem PA 18018, telephone (610) 868-1832. We look forward to receiving your proxy vote or seeing you at the Special Meeting. Your vote is important.

Best regards,

Stephen Bajan
Chief Executive Officer

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

NOTICE OF SPECIAL MEETING OF MEMBERS

To be held on [DATE]

To the Members of Saucon Mutual Insurance Company:

NOTICE IS HEREBY GIVEN that a special meeting of members (the "Special Meeting") of Saucon Mutual Insurance Company, a Pennsylvania mutual insurance company ("Saucon Mutual"), will be held on [DATE], at _____ beginning at _____, for the following purposes:

1. To consider and vote upon a proposal to adopt the Third Amended and Restated Alternative Plan of Conversion, approved by the Board of Directors of Saucon Mutual on March 22, 2017 (the "Plan of Conversion").
2. To consider and vote upon amendments to Saucon Mutual's articles of incorporation required to convert the company from a mutual insurance company to a stock insurance company.
3. To transact such other business, if any, as may properly come before the Special Meeting or any adjournments, postponements, rescheduling or continuations thereof.

A copy of the Plan of Conversion is enclosed with the Member Information Statement, Proxy Statement and Offering Document that accompanies this notice.

Saucon Mutual's Board of Directors has approved and adopted the Plan of Conversion and recommends that you vote:

"FOR" the adoption of the Plan of Conversion; and

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

All members of Saucon Mutual are cordially invited to attend the Special Meeting. To ensure your representation at the Special Meeting, however, you are urged to sign, date and complete the enclosed proxy card and mail it in the accompanying envelope, whether or not you expect to attend the Special Meeting. No postage is required if mailed in the United States. A member of Saucon Mutual may vote in person, even if such member has returned a proxy card, by revoking his, her or its proxy at or before the meeting.

If you have any questions about the Special Meeting, please contact Stephen Bajan, the Chief Executive Officer of Saucon Mutual, at 74 West Broad Street, Suite 300, Bethlehem PA 18018, telephone (610) 868-1832. You can vote (1) by attending the Special Meeting and voting in person or (2) by completing and returning the enclosed proxy card to our attention. Please see the attached voting instruction sheet for more information.

By Order of the Board of Directors,

[
Corporate Secretary
Bethlehem, PA

**YOUR VOTE IS IMPORTANT. TO VOTE, PLEASE SIGN, DATE AND COMPLETE THE
ENCLOSED PROXY CARD AND MAIL IT PROMPTLY IN THE ENCLOSED ENVELOPE.**

**Saucon Mutual Insurance Company
Special Meeting of Members
Voting Instructions**

Special Meeting: Date, Time and Place

The Special Meeting of members of Saucon Mutual Insurance Company will be held on [DATE], at _____, at _____.

Ways to Vote:

- **In Person** - Attend the Special Meeting and cast your vote(s).
- **By Mail** - You can vote by mail by filling out the enclosed proxy card(s) and returning it (or them if you have multiple proxy cards) in the envelope provided.

Who is Eligible to Vote?

- Saucon Mutual Insurance Company members as of the close of business on the Record Date, which is August 27, 2014, are "Eligible Members" who are entitled to vote.
- Consult the enclosed Member Information Statement, Proxy Statement and Offering Document, under the heading "Questions and Answers Relating to the Special Meeting, the Plan and the Conversion Transactions – Who is an Eligible Member of Saucon Mutual?" for an explanation of the principles of determining who is entitled to vote.

What is the Vote Required?

- The Plan of Conversion will be adopted if the proposal receives approval from at least two-thirds of votes cast at the Special Meeting through voting in person, by proxy, (return by mail), by telephone or by Internet.
- The articles of incorporation will be amended if the proposed amendment receives approval from at least two-thirds of votes cast at the Special Meeting through voting in person or by proxy (return by mail).

Revoking Your Vote:

- You can change or revoke your vote by mailing a notice of revocation or a later dated proxy to Saucon Mutual, which must be received by Saucon Mutual prior to 11:59 p.m., Eastern Standard Time on [DATE], or by attending the Special Meeting and voting in person.

Receipt of Proxy Statement

Certain members of Saucon Mutual who share the same address may receive only one copy of the proxy card, the Member Information Statement, Proxy Statement and Offering Document, and the other related documents, but this will not impact the number of votes you are entitled to cast. This practice, known as "householding," is designed to reduce printing and postage costs. If you would like additional copies of the Member Information Statement, Proxy Statement and Offering Document, please contact Stephen Bajan, the Chief Executive Officer of Saucon Mutual, at 74 West Broad Street, Suite 300, Bethlehem PA 18018, telephone (610) 868-1832.

Special Meeting Proxy Card

[Proxy Card Number]

Saucon Mutual Insurance Company
74 W. Broad Street
Suite 300
Bethlehem, PA 18018

Special Meeting of Members
[DATE], 2017
[LOCATION]

Mr. / Mrs. Member
1234 Main Street
Anywhere, USA 12345

Upon arrival, please present this admission ticket and photo identification and any other required documents.

Please review the Special Meeting of Members - Voting Instructions, which provide detailed instructions for completing this Proxy Card. Using a black ink pen, mark your votes with an X. You must complete Sections A (Voting Items) and C (Authorized Signature). You are urged to mail this Proxy Card in the accompanying envelope, whether or not you expect to attend the Special Meeting.

A. Voting Items

The Board of Directors recommend voting FOR items 1 and 2.

1. Adopt the Third Amended and Restated Plan of Conversion of Saucon Mutual Insurance Company, which was approved by the Board of Directors of Saucon Mutual on March 22, 2017.

For

Against

Abstain

2. Amend Saucon Mutual Insurance Company's articles of incorporation as necessary to convert the company from a mutual insurance company to a stock insurance company.

B. Non-Voting Items

Change of Address

Please print your new address below.

C. Authorized Signature

Please sign exactly as the name(s) appears. Joint policyholders should each sign. When signing as an attorney, executor, administrator corporate officer, trustee, guardian, or custodian, please give your full title.

Date (mm/dd/yy)

Signature 1

Signature 2

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Request for Taxpayer Identification Number and Certification

**Give Form to the
requester. Do not
send to the IRS.**

Print or type See Specific Instructions on page 2.	1 Name (as shown on your income tax return). Name is required on this line; do not leave this line blank.	
	2 Business name/disregarded entity name, if different from above	
	3 Check appropriate box for federal tax classification; check only one of the following seven boxes: <input type="checkbox"/> Individual/sole proprietor or single-member LLC <input type="checkbox"/> C Corporation <input type="checkbox"/> S Corporation <input type="checkbox"/> Partnership <input type="checkbox"/> Trust/estate <input type="checkbox"/> Limited liability company. Enter the tax classification (C=C corporation, S=S corporation, P=partnership) ▶ _____ Note. For a single-member LLC that is disregarded, do not check LLC; check the appropriate box in the line above for the tax classification of the single-member owner. <input type="checkbox"/> Other (see instructions) ▶ _____	
	4 Exemptions (codes apply only to certain entities, not individuals; see instructions on page 3): Exempt payee code (if any) _____ Exemption from FATCA reporting code (if any) _____ <small>(Applies to accounts maintained outside the U.S.)</small>	
	5 Address (number, street, and apt. or suite no.)	Requester's name and address (optional)
	6 City, state, and ZIP code	
	7 List account number(s) here (optional)	

Part I Taxpayer Identification Number (TIN)

Enter your TIN in the appropriate box. The TIN provided must match the name given on line 1 to avoid backup withholding. For individuals, this is generally your social security number (SSN). However, for a resident alien, sole proprietor, or disregarded entity, see the Part I instructions on page 3. For other entities, it is your employer identification number (EIN). If you do not have a number, see *How to get a TIN* on page 3.

Note. If the account is in more than one name, see the instructions for line 1 and the chart on page 4 for guidelines on whose number to enter.

Social security number														
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Part II Certification

Under penalties of perjury, I certify that:

1. The number shown on this form is my correct taxpayer identification number (or I am waiting for a number to be issued to me); and
2. I am not subject to backup withholding because: (a) I am exempt from backup withholding, or (b) I have not been notified by the Internal Revenue Service (IRS) that I am subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding; and
3. I am a U.S. citizen or other U.S. person (defined below); and
4. The FATCA code(s) entered on this form (if any) indicating that I am exempt from FATCA reporting is correct.

Certification instructions. You must cross out item 2 above if you have been notified by the IRS that you are currently subject to backup withholding because you have failed to report all interest and dividends on your tax return. For real estate transactions, item 2 does not apply. For mortgage interest paid, acquisition or abandonment of secured property, cancellation of debt, contributions to an individual retirement arrangement (IRA), and generally, payments other than interest and dividends, you are not required to sign the certification, but you must provide your correct TIN. See the instructions on page 3.

Sign Here	Signature of U.S. person ▶	Date ▶
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General Instructions

Section references are to the Internal Revenue Code unless otherwise noted.

Future developments. Information about developments affecting Form W-9 (such as legislation enacted after we release it) is at www.irs.gov/fw9.

Purpose of Form

An individual or entity (Form W-9 requester) who is required to file an information return with the IRS must obtain your correct taxpayer identification number (TIN) which may be your social security number (SSN), individual taxpayer identification number (ITIN), adoption taxpayer identification number (ATIN), or employer identification number (EIN), to report on an information return the amount paid to you, or other amount reportable on an information return. Examples of information returns include, but are not limited to, the following:

- Form 1099-INT (interest earned or paid)
- Form 1099-DIV (dividends, including those from stocks or mutual funds)
- Form 1099-MISC (various types of income, prizes, awards, or gross proceeds)
- Form 1099-B (stock or mutual fund sales and certain other transactions by brokers)
- Form 1099-S (proceeds from real estate transactions)
- Form 1099-K (merchant card and third party network transactions)

- Form 1098 (home mortgage interest), 1098-E (student loan interest), 1098-T (tuition)
- Form 1099-C (canceled debt)
- Form 1099-A (acquisition or abandonment of secured property)

Use Form W-9 only if you are a U.S. person (including a resident alien), to provide your correct TIN.

If you do not return Form W-9 to the requester with a TIN, you might be subject to backup withholding. See What is backup withholding? on page 2.

By signing the filled-out form, you:

1. Certify that the TIN you are giving is correct (or you are waiting for a number to be issued),
2. Certify that you are not subject to backup withholding, or
3. Claim exemption from backup withholding if you are a U.S. exempt payee. If applicable, you are also certifying that as a U.S. person, your allocable share of any partnership income from a U.S. trade or business is not subject to the withholding tax on foreign partners' share of effectively connected income, and
4. Certify that FATCA code(s) entered on this form (if any) indicating that you are exempt from the FATCA reporting, is correct. See *What is FATCA reporting?* on page 2 for further information.

Note. If you are a U.S. person and a requester gives you a form other than Form W-9 to request your TIN, you must use the requester's form if it is substantially similar to this Form W-9.

Definition of a U.S. person. For federal tax purposes, you are considered a U.S. person if you are:

- An individual who is a U.S. citizen or U.S. resident alien;
- A partnership, corporation, company, or association created or organized in the United States or under the laws of the United States;
- An estate (other than a foreign estate); or
- A domestic trust (as defined in Regulations section 301.7701-7).

Special rules for partnerships. Partnerships that conduct a trade or business in the United States are generally required to pay a withholding tax under section 1446 on any foreign partners' share of effectively connected taxable income from such business. Further, in certain cases where a Form W-9 has not been received, the rules under section 1446 require a partnership to presume that a partner is a foreign person, and pay the section 1446 withholding tax. Therefore, if you are a U.S. person that is a partner in a partnership conducting a trade or business in the United States, provide Form W-9 to the partnership to establish your U.S. status and avoid section 1446 withholding on your share of partnership income.

In the cases below, the following person must give Form W-9 to the partnership for purposes of establishing its U.S. status and avoiding withholding on its allocable share of net income from the partnership conducting a trade or business in the United States:

- In the case of a disregarded entity with a U.S. owner, the U.S. owner of the disregarded entity and not the entity;
- In the case of a grantor trust with a U.S. grantor or other U.S. owner, generally, the U.S. grantor or other U.S. owner of the grantor trust and not the trust; and
- In the case of a U.S. trust (other than a grantor trust), the U.S. trust (other than a grantor trust) and not the beneficiaries of the trust.

Foreign person. If you are a foreign person or the U.S. branch of a foreign bank that has elected to be treated as a U.S. person, do not use Form W-9. Instead, use the appropriate Form W-8 or Form 8233 (see Publication 515, Withholding of Tax on Nonresident Aliens and Foreign Entities).

Nonresident alien who becomes a resident alien. Generally, only a nonresident alien individual may use the terms of a tax treaty to reduce or eliminate U.S. tax on certain types of income. However, most tax treaties contain a provision known as a "saving clause." Exceptions specified in the saving clause may permit an exemption from tax to continue for certain types of income even after the payee has otherwise become a U.S. resident alien for tax purposes.

If you are a U.S. resident alien who is relying on an exception contained in the saving clause of a tax treaty to claim an exemption from U.S. tax on certain types of income, you must attach a statement to Form W-9 that specifies the following five items:

1. The treaty country. Generally, this must be the same treaty under which you claimed exemption from tax as a nonresident alien.
2. The treaty article addressing the income.
3. The article number (or location) in the tax treaty that contains the saving clause and its exceptions.
4. The type and amount of income that qualifies for the exemption from tax.
5. Sufficient facts to justify the exemption from tax under the terms of the treaty article.

Example. Article 20 of the U.S.-China income tax treaty allows an exemption from tax for scholarship income received by a Chinese student temporarily present in the United States. Under U.S. law, this student will become a resident alien for tax purposes if his or her stay in the United States exceeds 5 calendar years. However, paragraph 2 of the first Protocol to the U.S.-China treaty (dated April 30, 1984) allows the provisions of Article 20 to continue to apply even after the Chinese student becomes a resident alien of the United States. A Chinese student who qualifies for this exception (under paragraph 2 of the first protocol) and is relying on this exception to claim an exemption from tax on his or her scholarship or fellowship income would attach to Form W-9 a statement that includes the information described above to support that exemption.

If you are a nonresident alien or a foreign entity, give the requester the appropriate completed Form W-8 or Form 8233.

Backup Withholding

What is backup withholding? Persons making certain payments to you must under certain conditions withhold and pay to the IRS 28% of such payments. This is called "backup withholding." Payments that may be subject to backup withholding include interest, tax-exempt interest, dividends, broker and barter exchange transactions, rents, royalties, nonemployee pay, payments made in settlement of payment card and third party network transactions, and certain payments from fishing boat operators. Real estate transactions are not subject to backup withholding.

You will not be subject to backup withholding on payments you receive if you give the requester your correct TIN, make the proper certifications, and report all your taxable interest and dividends on your tax return.

Payments you receive will be subject to backup withholding if:

1. You do not furnish your TIN to the requester,
2. You do not certify your TIN when required (see the Part II instructions on page 3 for details),

3. The IRS tells the requester that you furnished an incorrect TIN,

4. The IRS tells you that you are subject to backup withholding because you did not report all your interest and dividends on your tax return (for reportable interest and dividends only), or

5. You do not certify to the requester that you are not subject to backup withholding under 4 above (for reportable interest and dividend accounts opened after 1983 only).

Certain payees and payments are exempt from backup withholding. See *Exempt payee code* on page 3 and the separate Instructions for the Requester of Form W-9 for more information.

Also see *Special rules for partnerships* above.

What is FATCA reporting?

The Foreign Account Tax Compliance Act (FATCA) requires a participating foreign financial institution to report all United States account holders that are specified United States persons. Certain payees are exempt from FATCA reporting. See *Exemption from FATCA reporting code* on page 3 and the Instructions for the Requester of Form W-9 for more information.

Updating Your Information

You must provide updated information to any person to whom you claimed to be an exempt payee if you no longer are an exempt payee and anticipate receiving reportable payments in the future from this person. For example, you may need to provide updated information if you are a C corporation that elects to be an S corporation, or if you no longer are tax exempt. In addition, you must furnish a new Form W-9 if the name or TIN changes for the account; for example, if the grantor of a grantor trust dies.

Penalties

Failure to furnish TIN. If you fail to furnish your correct TIN to a requester, you are subject to a penalty of \$50 for each such failure unless your failure is due to reasonable cause and not to willful neglect.

Civil penalty for false information with respect to withholding. If you make a false statement with no reasonable basis that results in no backup withholding, you are subject to a \$500 penalty.

Criminal penalty for falsifying information. Willfully falsifying certifications or affirmations may subject you to criminal penalties including fines and/or imprisonment.

Misuse of TINs. If the requester discloses or uses TINs in violation of federal law, the requester may be subject to civil and criminal penalties.

Specific Instructions

Line 1

You must enter one of the following on this line; **do not** leave this line blank. The name should match the name on your tax return.

If this Form W-9 is for a joint account, list first, and then circle, the name of the person or entity whose number you entered in Part I of Form W-9.

a. **Individual.** Generally, enter the name shown on your tax return. If you have changed your last name without informing the Social Security Administration (SSA) of the name change, enter your first name, the last name as shown on your social security card, and your new last name.

Note. ITIN applicant: Enter your individual name as it was entered on your Form W-7 application, line 1a. This should also be the same as the name you entered on the Form 1040/1040A/1040EZ you filed with your application.

b. **Sole proprietor or single-member LLC.** Enter your individual name as shown on your 1040/1040A/1040EZ on line 1. You may enter your business, trade, or "doing business as" (DBA) name on line 2.

c. **Partnership, LLC that is not a single-member LLC, C Corporation, or S Corporation.** Enter the entity's name as shown on the entity's tax return on line 1 and any business, trade, or DBA name on line 2.

d. **Other entities.** Enter your name as shown on required U.S. federal tax documents on line 1. This name should match the name shown on the charter or other legal document creating the entity. You may enter any business, trade, or DBA name on line 2.

e. **Disregarded entity.** For U.S. federal tax purposes, an entity that is disregarded as an entity separate from its owner is treated as a "disregarded entity." See Regulations section 301.7701-2(c)(2)(iii). Enter the owner's name on line 1. The name of the entity entered on line 1 should never be a disregarded entity. The name on line 1 should be the name shown on the income tax return on which the income should be reported. For example, if a foreign LLC that is treated as a disregarded entity for U.S. federal tax purposes has a single owner that is a U.S. person, the U.S. owner's name is required to be provided on line 1. If the direct owner of the entity is also a disregarded entity, enter the first owner that is not disregarded for federal tax purposes. Enter the disregarded entity's name on line 2, "Business name/disregarded entity name." If the owner of the disregarded entity is a foreign person, the owner must complete an appropriate Form W-8 instead of a Form W-9. This is the case even if the foreign person has a U.S. TIN.

Line 2

If you have a business name, trade name, DBA name, or disregarded entity name, you may enter it on line 2.

Line 3

Check the appropriate box in line 3 for the U.S. federal tax classification of the person whose name is entered on line 1. Check only one box in line 3.

Limited Liability Company (LLC). If the name on line 1 is an LLC treated as a partnership for U.S. federal tax purposes, check the "Limited Liability Company" box and enter "P" in the space provided. If the LLC has filed Form 8832 or 2553 to be taxed as a corporation, check the "Limited Liability Company" box and in the space provided enter "C" for C corporation or "S" for S corporation. If it is a single-member LLC that is a disregarded entity, do not check the "Limited Liability Company" box; instead check the first box in line 3 "Individual/sole proprietor or single-member LLC."

Line 4, Exemptions

If you are exempt from backup withholding and/or FATCA reporting, enter in the appropriate space in line 4 any code(s) that may apply to you.

Exempt payee code.

- Generally, individuals (including sole proprietors) are not exempt from backup withholding.
- Except as provided below, corporations are exempt from backup withholding for certain payments, including interest and dividends.
- Corporations are not exempt from backup withholding for payments made in settlement of payment card or third party network transactions.
- Corporations are not exempt from backup withholding with respect to attorneys' fees or gross proceeds paid to attorneys, and corporations that provide medical or health care services are not exempt with respect to payments reportable on Form 1099-MISC.

The following codes identify payees that are exempt from backup withholding. Enter the appropriate code in the space in line 4.

- 1—An organization exempt from tax under section 501(a), any IRA, or a custodial account under section 403(b)(7) if the account satisfies the requirements of section 401(f)(2)
- 2—The United States or any of its agencies or instrumentalities
- 3—A state, the District of Columbia, a U.S. commonwealth or possession, or any of their political subdivisions or instrumentalities
- 4—A foreign government or any of its political subdivisions, agencies, or instrumentalities
- 5—A corporation
- 6—A dealer in securities or commodities required to register in the United States, the District of Columbia, or a U.S. commonwealth or possession
- 7—A futures commission merchant registered with the Commodity Futures Trading Commission
- 8—A real estate investment trust
- 9—An entity registered at all times during the tax year under the Investment Company Act of 1940
- 10—A common trust fund operated by a bank under section 584(a)
- 11—A financial institution
- 12—A middleman known in the investment community as a nominee or custodian
- 13—A trust exempt from tax under section 664 or described in section 4947

The following chart shows types of payments that may be exempt from backup withholding. The chart applies to the exempt payees listed above, 1 through 13.

IF the payment is for . . .	THEN the payment is exempt for . . .
Interest and dividend payments	All exempt payees except for 7
Broker transactions	Exempt payees 1 through 4 and 6 through 11 and all C corporations. S corporations must not enter an exempt payee code because they are exempt only for sales of noncovered securities acquired prior to 2012.
Barter exchange transactions and patronage dividends	Exempt payees 1 through 4
Payments over \$600 required to be reported and direct sales over \$5,000 ¹	Generally, exempt payees 1 through 5 ²
Payments made in settlement of payment card or third party network transactions	Exempt payees 1 through 4

¹ See Form 1099-MISC, Miscellaneous Income, and its instructions.

² However, the following payments made to a corporation and reportable on Form 1099-MISC are not exempt from backup withholding: medical and health care payments, attorneys' fees, gross proceeds paid to an attorney reportable under section 6045(f), and payments for services paid by a federal executive agency.

Exemption from FATCA reporting code. The following codes identify payees that are exempt from reporting under FATCA. These codes apply to persons submitting this form for accounts maintained outside of the United States by certain foreign financial institutions. Therefore, if you are only submitting this form for an account you hold in the United States, you may leave this field blank. Consult with the person requesting this form if you are uncertain if the financial institution is subject to these requirements. A requester may indicate that a code is not required by providing you with a Form W-9 with "Not Applicable" (or any similar indication) written or printed on the line for a FATCA exemption code.

- A—An organization exempt from tax under section 501(a) or any individual retirement plan as defined in section 7701(a)(37)
- B—The United States or any of its agencies or instrumentalities
- C—A state, the District of Columbia, a U.S. commonwealth or possession, or any of their political subdivisions or instrumentalities
- D—A corporation the stock of which is regularly traded on one or more established securities markets, as described in Regulations section 1.1472-1(c)(1)(i)
- E—A corporation that is a member of the same expanded affiliated group as a corporation described in Regulations section 1.1472-1(c)(1)(i)
- F—A dealer in securities, commodities, or derivative financial instruments (including notional principal contracts, futures, forwards, and options) that is registered as such under the laws of the United States or any state
- G—A real estate investment trust
- H—A regulated investment company as defined in section 851 or an entity registered at all times during the tax year under the Investment Company Act of 1940
- I—A common trust fund as defined in section 584(a)
- J—A bank as defined in section 581
- K—A broker
- L—A trust exempt from tax under section 664 or described in section 4947(a)(1)
- M—A tax exempt trust under a section 403(b) plan or section 457(g) plan

Note. You may wish to consult with the financial institution requesting this form to determine whether the FATCA code and/or exempt payee code should be completed.

Line 5

Enter your address (number, street, and apartment or suite number). This is where the requester of this Form W-9 will mail your information returns.

Line 6

Enter your city, state, and ZIP code.

Part I. Taxpayer Identification Number (TIN)

Enter your TIN in the appropriate box. If you are a resident alien and you do not have and are not eligible to get an SSN, your TIN is your IRS individual taxpayer identification number (ITIN). Enter it in the social security number box. If you do not have an ITIN, see *How to get a TIN* below.

If you are a sole proprietor and you have an EIN, you may enter either your SSN or EIN. However, the IRS prefers that you use your SSN.

If you are a single-member LLC that is disregarded as an entity separate from its owner (see *Limited Liability Company (LLC)* on this page), enter the owner's SSN (or EIN, if the owner has one). Do not enter the disregarded entity's EIN. If the LLC is classified as a corporation or partnership, enter the entity's EIN.

Note. See the chart on page 4 for further clarification of name and TIN combinations.

How to get a TIN. If you do not have a TIN, apply for one immediately. To apply for an SSN, get Form SS-5, Application for a Social Security Card, from your local SSA office or get this form online at www.ssa.gov. You may also get this form by calling 1-800-772-1213. Use Form W-7, Application for IRS Individual Taxpayer Identification Number, to apply for an ITIN, or Form SS-4, Application for Employer Identification Number, to apply for an EIN. You can apply for an EIN online by accessing the IRS website at www.irs.gov/businesses and clicking on Employer Identification Number (EIN) under Starting a Business. You can get Forms W-7 and SS-4 from the IRS by visiting IRS.gov or by calling 1-800-TAX-FORM (1-800-829-3676).

If you are asked to complete Form W-9 but do not have a TIN, apply for a TIN and write "Applied For" in the space for the TIN, sign and date the form, and give it to the requester. For interest and dividend payments, and certain payments made with respect to readily tradable instruments, generally you will have 60 days to get a TIN and give it to the requester before you are subject to backup withholding on payments. The 60-day rule does not apply to other types of payments. You will be subject to backup withholding on all such payments until you provide your TIN to the requester.

Note. Entering "Applied For" means that you have already applied for a TIN or that you intend to apply for one soon.

Caution: A disregarded U.S. entity that has a foreign owner must use the appropriate Form W-8.

Part II. Certification

To establish to the withholding agent that you are a U.S. person, or resident alien, sign Form W-9. You may be requested to sign by the withholding agent even if items 1, 4, or 5 below indicate otherwise.

For a joint account, only the person whose TIN is shown in Part I should sign (when required). In the case of a disregarded entity, the person identified on line 1 must sign. Exempt payees, see *Exempt payee code* earlier.

Signature requirements. Complete the certification as indicated in items 1 through 5 below.

1. Interest, dividend, and barter exchange accounts opened before 1984 and broker accounts considered active during 1983. You must give your correct TIN, but you do not have to sign the certification.

2. Interest, dividend, broker, and barter exchange accounts opened after 1983 and broker accounts considered inactive during 1983. You must sign the certification or backup withholding will apply. If you are subject to backup withholding and you are merely providing your correct TIN to the requester, you must cross out item 2 in the certification before signing the form.

3. Real estate transactions. You must sign the certification. You may cross out item 2 of the certification.

4. Other payments. You must give your correct TIN, but you do not have to sign the certification unless you have been notified that you have previously given an incorrect TIN. "Other payments" include payments made in the course of the requester's trade or business for rents, royalties, goods (other than bills for merchandise), medical and health care services (including payments to corporations), payments to a nonemployee for services, payments made in settlement of payment card and third party network transactions, payments to certain fishing boat crew members and fishermen, and gross proceeds paid to attorneys (including payments to corporations).

5. Mortgage interest paid by you, acquisition or abandonment of secured property, cancellation of debt, qualified tuition program payments (under section 529), IRA, Coverdell ESA, Archer MSA or HSA contributions or distributions, and pension distributions. You must give your correct TIN, but you do not have to sign the certification.

³ You must show your individual name and you may also enter your business or DBA name on the "Business name/disregarded entity" name line. You may use either your SSN or EIN (if you have one), but the IRS encourages you to use your SSN.

⁴ List first and circle the name of the trust, estate, or pension trust. (Do not furnish the TIN of the personal representative or trustee unless the legal entity itself is not designated in the account title.) Also see *Special rules for partnerships* on page 2.

*Note. Grantor also must provide a Form W-9 to trustee of trust.

Note. If no name is circled when more than one name is listed, the number will be considered to be that of the first name listed.

Secure Your Tax Records from Identity Theft

Identity theft occurs when someone uses your personal information such as your name, SSN, or other identifying information, without your permission, to commit fraud or other crimes. An identity thief may use your SSN to get a job or may file a tax return using your SSN to receive a refund.

To reduce your risk:

- Protect your SSN,
- Ensure your employer is protecting your SSN, and
- Be careful when choosing a tax preparer.

If your tax records are affected by identity theft and you receive a notice from the IRS, respond right away to the name and phone number printed on the IRS notice or letter.

If your tax records are not currently affected by identity theft but you think you are at risk due to a lost or stolen purse or wallet, questionable credit card activity or credit report, contact the IRS Identity Theft Hotline at 1-800-908-4490 or submit Form 14039.

For more information, see Publication 4535, Identity Theft Prevention and Victim Assistance.

Victims of identity theft who are experiencing economic harm or a system problem, or are seeking help in resolving tax problems that have not been resolved through normal channels, may be eligible for Taxpayer Advocate Service (TAS) assistance. You can reach TAS by calling the TAS toll-free case intake line at 1-877-777-4778 or TTY/TDD 1-800-829-4059.

Protect yourself from suspicious emails or phishing schemes. Phishing is the creation and use of email and websites designed to mimic legitimate business emails and websites. The most common act is sending an email to a user falsely claiming to be an established legitimate enterprise in an attempt to scam the user into surrendering private information that will be used for identity theft.

The IRS does not initiate contacts with taxpayers via emails. Also, the IRS does not request personal detailed information through email or ask taxpayers for the PIN numbers, passwords, or similar secret access information for their credit card, bank, or other financial accounts.

If you receive an unsolicited email claiming to be from the IRS, forward this message to phishing@irs.gov. You may also report misuse of the IRS name, logo, or other IRS property to the Treasury Inspector General for Tax Administration (TIGTA) at 1-800-366-4484. You can forward suspicious emails to the Federal Trade Commission at: spam@uce.gov or contact them at www.ftc.gov/idtheft or 1-877-IDTHEFT (1-877-438-4338).

Visit IRS.gov to learn more about identity theft and how to reduce your risk.

What Name and Number To Give the Requester

For this type of account:	Give name and SSN of:
1. Individual	The individual
2. Two or more individuals (joint account)	The actual owner of the account or, if combined funds, the first individual on the account ¹
3. Custodian account of a minor (Uniform Gift to Minors Act)	The minor ²
4. a. The usual revocable savings trust (grantor is also trustee) b. So-called trust account that is not a legal or valid trust under state law	The grantor-trustee ¹ The actual owner ¹
5. Sole proprietorship or disregarded entity owned by an individual	The owner ³
6. Grantor trust filing under Optional Form 1099 Filing Method 1 (see Regulations section 1.671-4(b)(2)(i)(A))	The grantor ⁴

For this type of account:	Give name and EIN of:
7. Disregarded entity not owned by an individual	The owner
8. A valid trust, estate, or pension trust	Legal entity ⁴
9. Corporation or LLC electing corporate status on Form 8832 or Form 2553	The corporation
10. Association, club, religious, charitable, educational, or other tax-exempt organization	The organization
11. Partnership or multi-member LLC	The partnership
12. A broker or registered nominee	The broker or nominee
13. Account with the Department of Agriculture in the name of a public entity (such as a state or local government, school district, or prison) that receives agricultural program payments	The public entity
14. Grantor trust filing under the Form 1041 Filing Method or the Optional Form 1099 Filing Method 2 (see Regulations section 1.671-4(b)(2)(i)(B))	The trust

¹ List first and circle the name of the person whose number you furnish. If only one person on a joint account has an SSN, that person's number must be furnished.

² Circle the minor's name and furnish the minor's SSN.

Privacy Act Notice

Section 6109 of the Internal Revenue Code requires you to provide your correct TIN to persons (including federal agencies) who are required to file information returns with the IRS to report interest, dividends, or certain other income paid to you; mortgage interest you paid; the acquisition or abandonment of secured property; the cancellation of debt; or contributions you made to an IRA, Archer MSA, or HSA. The person collecting this form uses the information on the form to file information returns with the IRS, reporting the above information. Routine uses of this information include giving it to the Department of Justice for civil and criminal litigation and to cities, states, the District of Columbia, and U.S. commonwealths and possessions for use in administering their laws. The information also may be disclosed to other countries under a treaty, to federal and state agencies to enforce civil and criminal laws, or to federal law enforcement and intelligence agencies to combat terrorism. You must provide your TIN whether or not you are required to file a tax return. Under section 3406, payers must generally withhold a percentage of taxable interest, dividend, and certain other payments to a payee who does not give a TIN to the payer. Certain penalties may also apply for providing false or fraudulent information.