

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

In Re: Legion Insurance Company, : No. 1 LEG 2002
(In Liquidation) :

**QUARTERLY REPORT OF THE LIQUIDATOR
ON THE STATUS OF THE LIQUIDATION OF
LEGION INSURANCE COMPANY AS OF DECEMBER 31, 2017**

I. INTRODUCTION

Jessica K. Altman, Acting Insurance Commissioner of the Commonwealth of Pennsylvania, in her official capacity as Statutory Liquidator (the “Liquidator”) of Legion Insurance Company (“Legion or Estate”), through her undersigned counsel, hereby submits this Quarterly Report on the status of the liquidation of Legion for the period from January 1, 2017 through December 31, 2017 (“Report”).

II. REPORT

A. Financial Statements.

Legion has prepared the Special Purpose Statement of Assets and Liabilities, Statutory Capital and Surplus Account and Cash Flow Summary (“Statements”). The Statements include many estimates as noted below and may not fully reflect the effects of the liquidation. Consequently, the ultimate distribution to creditors is unknown at this time. For this reason, third parties should not rely on the financial information contained herein as providing any certainty or clear indication as to the ultimate distribution that will be made from Legion. The Notes to the Special Purpose Statement of Assets and Liabilities, attached as Exhibit D, describes the nature of the line items on the Statements and should be included in any review of Legion’s financial information.

The Statements are addressed in more detail in sections 1 through 4 below.

1. **Special Purpose Statement of Assets and Liabilities – Assets –**

EXHIBIT A.

As of December 31, 2017, the attached Special Purpose Statement of Assets and Liabilities shows estimated total assets were \$2,149.9 million including \$458.1 million of cash and liquid investments.

Early access advances to Guaranty Associations (“GAs”) totaled \$1,690.6 million.

a. **Cash and Investments.**

Legion had a cash and investment portfolio of \$458.1 million as of December 31, 2017. Refer to the Cash Flow Summary (Exhibit C) for major components of change for the current year. Excess cash flows over and above the immediate operating needs of the Estate are transferred to money market deposits. Until the expiration of their contract on June 30, 2017, Legion’s investment manager, Delaware Investments, utilized Legion’s approved investment policy to trade specific securities held in the fixed income securities portfolio and to generally monitor and manage the portfolio in accordance with the guidelines. Subsequently, BNY Mellon Bank, custodian of the securities, transferred the cash and securities in the portfolio to Morgan Stanley, which has provided financial advisory services to the Estate since 2009. The securities will be held by Morgan Stanley until maturity, and all proceeds will be placed in money market accounts in the Estate’s account with Morgan Stanley. All marketable securities are booked to the market values provided by Morgan Stanley as of the end of each month. Of the \$458.1 million cash and investments available, \$65.8 million is being reserved as it may be potentially distributed for Early Access funds currently held. (See Section 1(b) below.)

b. Early Access Advances.

Workers' compensation claims paid by Legion on behalf of the GAs during the first 90 days after the date of the Liquidation and pursuant to the Court's Order are considered part of early access monies.

On August 7, 2014, the Court approved the Liquidator's Ninth Proposal to Distribute Assets (\$130.0 million) to the State Guaranty Associations ("Liquidator's Ninth Proposal") bringing the total authorized by the Court to \$1.76 billion for early access distributions. Legion has distributed all of these funds via cash payments and reductions of statutory deposits, except for \$65.8 million which is currently being held. In September 2017, \$2.9 million which was previously approved was distributed to a GA from funds held.

On April 24, 2017, the Court approved a \$6.4 million early access distribution to the Oregon Insurance Guaranty Association (OIGA) as discussed in more detail in section 1(c) below.

c. State Deposits and Unapplied State Deposits.

On October 28, 2016, the Circuit Court of the State of Oregon for the County of Marion entered an Order approving the closure of the Ancillary Receivership of Legion in Oregon and the transfer of the remaining assets of the Ancillary Receivership to the Estate. On November 29, 2016, the OIGA entered into a refunding agreement with Legion, pursuant to which \$7.4 million in funds received by OIGA from the Ancillary Receivership shall be applied against any Early Access distributions and the final distribution. On December 27, 2016, the Ancillary Receiver transferred \$5.8 million of cash and securities to Legion, with an additional \$.1 million transferred in 2017. The Liquidator filed a proposal with the Court on March 10, 2017, to make OIGA eligible for early access distributions which was approved by the Court on April 24, 2017.

As a result, \$6.4 million of funds previously received by the OIGA were treated as an early access distribution, and \$1 million is treated as an unapplied state deposit pending the final distribution.

2. **Special Purpose Statement of Assets and Liabilities – Liabilities –**

EXHIBIT A.

Total estimated liabilities at December 31, 2017, were \$2.5 billion. The Statement includes an estimate of the liquidation expenses that have been incurred by the GAs, for which no notice of determination (“NOD”) has yet been issued, in administering the Estate including a reserve for the costs of their ongoing administration of open claims from the Claims Bar Date. It also includes Legion’s liability for GA-accepted administrative expense NODs of \$82.3M. It does not include an estimate of the cost that will be incurred by Legion in administering the Estate over time. Legion liquidation expenses are class (a) priority payments under the Insurance Department Act of 1921, 40 P.S. § 221.44 (“Act”), as are certain GA expenses, to the extent permitted by the Act. Both Liquidator and GA expenses will be paid before distributions for claims under policies for losses, class (b) priority, and other lower class creditors. As of December 31, 2017, there was \$1.1 million in reserves for unpaid liquidator expenses.

However, the most significant liability is the \$2.1 billion assigned to class (b) proofs of claim (“POCs”). This category includes Legion’s estimates of direct insurance policy holder benefits reported as paid (\$904.0 million) and reserves (\$207.4 million) by those GAs for which no NOD has yet been issued, as reflected on the attached Exhibit H, Guaranty Fund Claim Overview Report. It also includes Legion’s liability for GA-accepted NODs of \$994.2 million and for non-guaranty fund-accepted NODs of \$59.0 million. A reduction of \$29.4 million is shown for distribution payments issued to class (b) claimants as of December 31, 2017.

On April 29, 2015, the Court entered an Order establishing a Claims Bar Date. The Order provides that all claims must have matured into a legal cause of action and a Proof of Claim filed with the Estate by July 28, 2015. The estate has continued to accept information on losses reported to the GAs up through the Claims Bar Date.

a. Priority Class A.

Prior to receivership, Legion, Villanova Insurance Company (“Villanova”) and Legion Indemnity Company (“Indemnity”) operated with an expense sharing agreement pursuant to which Legion paid the common expenses for all three companies through July 2003. Under the expense sharing agreement, common expenses were allocated 80% to Legion, 10% to Villanova and 10% to Indemnity. Following entry of the Court’s Orders placing Legion and Villanova into liquidation in July 2003, the expenses were allocated 90% to Legion and 10% to Villanova. The several schedules attached to this Report relating to expenses (Exhibits E and F) represent the expenses paid or incurred by Legion and Villanova on a consolidated basis, including all common expenses, before any allocation. The Liquidator’s Petition for Approval of Administrative Expenses Paid for the Period January 1, 2017 through June 30, 2017, was approved by the Court on September 19, 2017.

The Combined Expense Detail attached as Exhibit E lists \$8.8 million of statutory liquidator administrative total operating expenses incurred by Legion and Villanova for the period January 1, 2017 through December 31, 2017.

The GAs report their administrative expenses to Legion via financial reports generally received quarterly from most GAs. Attached as Exhibit H is the Guaranty Fund Claim Overview Report showing for those GAs whose claims have not yet been issued an NOD the total of \$127.8 million in administrative expenses reported to Legion as paid by GAs through the Claims

Bar Date. Legion reviews such expenses as part of the formal NOD process. Subsequent to the Claims Bar Date, Legion began issuing NODs for GA administrative expense POCs based on Legion's continuing review of each GA's reported expenses. As of December 31, 2017, Legion's liability for GA administrative expense as reflected in NODs issued by Legion and accepted by GAs was \$82.3 million.

b. Priority Class B.

The amounts set forth on this Statement for losses and loss adjustment expenses as of the Claims Bar Date are based primarily upon GA paid claims, POCs and NODs issued and the estimated value of known case reserves established by actuarial estimates of expected losses on an undiscounted basis as of the Claims Bar Date. Due to the inherent complexity of the loss reserving process, the potential variability of the assumptions used and the variability resulting from the effect of the liquidation process, the final ultimate liability for losses and loss adjustment expenses will be determined through the NOD evaluation process, and may be significantly different from the estimate of loss and ALAE reserves included in the statements. As of December 31, 2017, Legion's liability for GA policyholder benefit claims as reflected in NODs issued by Legion and accepted by GAs was \$994.2 million.

c. Priority Classes Below Class B.

Also included in total liabilities are estimated liabilities for POCs assigned to priority classifications below class (b), which aggregate to \$121.0 million. (See the accompanying notes for a brief description of each line item.)

Throughout the liquidation period it has been anticipated that Legion would not make distributions to claimants whose claims were classified (c) or below. In order to maximize the Estates' resources and assets, Legion decided to issue "Class Only" NODs for class (e), (f) and

(g) levels. These NODs acknowledged the legitimacy of a claim but assigned no dollar value to the claim. In the event it was determined that Legion would be able to make distributions to claimants in levels below class (b), the Class Only NODs for those classes where distributions might be made would be valued and issued an amended NOD. When the Court amended its rules for the summary and formal proceedings against insurers effective July 30, 2012, all class (e), (f) and (g) claims valued after that date were assigned a dollar value. While it is still not anticipated that Legion will pay out below a class (b) claim, as a result of the issuance of Class Only NODs, total liabilities in those classes may be substantially understated.

3. Statement of Statutory Capital and Surplus Account – EXHIBIT B.

Attached to this report is a special purpose Statement of Statutory Capital and Surplus Account for the period from December 31, 2001 to December 31, 2017. The estimated net deficit at December 31, 2017 was \$317.5 million.

4. Statement of Cash Flow Summary – EXHIBIT C.

Attached to this report is a Statement of Cash Flow Summary (“Cash Flow Summary”) for the period January 1, 2017 through December 31, 2017. Total sources of cash and investments for the period were \$9.8 million.

Total uses of cash and investments were \$14.0 million for the period.

a. Reinsurance Collections.

Although Reinsurance recoverables have been a significant asset of Legion, the reinsurance recovery effort has been completed. During the period January 1, 2017 through December 31, 2017, \$1.2 million of reinsurance was collected. Legion does not expect any further material reinsurance collections.

b. Operating Expenses.

Refer to Exhibit E, Combined Expense Detail, for line item detail of major components of operating expenses incurred by Legion and Villanova for the period January 1, 2017 through December 31, 2017. Operating expenses paid per the Cash Flow Summary and Administrative Expenses Incurred per the Combined Expense Detail differs somewhat because of accruals. For most operating expenses, Legion pays the invoice and is reimbursed from Villanova for its share through an intercompany transfer. (Please refer to the explanation of expense allocation included under Section 2a.)

c. Federal Income Tax Refund.

In January 2017, Legion received a \$1.1 million refund related to the 2014 tax year. (For further information, see Paragraph 5(e).)

d. Guaranty Association Transactions.

As of December 31, 2017, the Court has authorized \$1.76 billion in total for early access distributions. Legion has distributed via cash payments and reductions of statutory deposits all of these funds, except for \$65.8 million which is currently being held. A distribution of \$6.4 million was made to the OIGA in 2017, via a reduction of statutory deposits as discussed in more detail in section 1(c) above. In September 2017, \$2.9 million which was previously approved was distributed to a GA from funds held.

e. Interim Distribution.

On February 27, 2012, the Court approved the Liquidator's Amended Petition for First Interim Distribution allowing a 50% distribution to all class (b) claimants whose NOD is approved by the Court. As of December 31, 2017, Legion has made distribution payments of \$29.4 million.

5. Combined Expense Detail – EXHIBIT E.

The operating expenses of Legion relate to efforts by the Liquidator to marshal and maximize the assets of the Estate for the benefit of all Legion policyholders and claimants, as well as to review and determine the ultimate liabilities of the Estate, to fulfill the public policies and purposes of the Act and the liquidation process, and to investigate and hold accountable those third parties alleged to contribute to the insolvency of Legion.

Exhibit E is a schedule reflecting the combined incurred expenses of Legion and Villanova from January 1, 2017 through December 31, 2017, together with a comparison, by category of expense, between 2017 YTD actual and 2017 YTD budget and between 2017 YTD actual and 2016 YTD actual. As reflected in the Statement, the total operating expenses through December 31, 2017, are \$8.8 million, which is 8.0% lower than the 2017 budget and is 17.4% less than the 2016 actual. There have been no significant unfavorable variances between the budgeted and actual accrued expenses. The GAs also incurred operating expenses, which are reported cumulatively on Exhibit H. (Please refer to Section 2a for an explanation of the expense allocation.)

a. Labor, Benefits and Payroll Taxes.

As of December 31, 2017, Legion had a total of 25 employees. In addition, Legion utilizes temporary/contractor workers when needed. Current plans dictate that this mix will fluctuate as Legion implements a more flexible staffing model designed to ensure continuity of specialized and institutional knowledge critical to the Estate.

b. Occupancy.

Legion currently leases office space in Philadelphia. The lease term has been extended through June 30, 2018, with monthly base lease payments of \$24,750 from July 1, 2017 through

June 30, 2018. Legion has executed a new lease agreement through September 30, 2019, on new office space in Philadelphia with monthly base lease payments of \$20,750 effective June 15, 2018.

c. Legal Fees and Expenses.

Attached as Exhibit F is a schedule containing the legal expense paid detail by firm for the period January 1, 2017 through December 31, 2017, by month. Legal expenses generally pertained to NOD objections and liquidation matters.

d. Professional Services.

Attached as Exhibit F is a schedule containing the professional service expense paid detail by vendor name for the period January 1, 2017 through December 31, 2017, by month. The individual professionals and firms listed in the schedule include auditing services, tax services and consulting fees.

e. Federal Income Taxes.

Legion made federal income tax payments of \$2.9 million in 2016 and \$1.6 million in 2015, which were recorded as income tax expenses in the year ended December 31, 2015. In July 2016, Legion's parent company filed a request with the IRS for permission to retroactively make an election on its 2009 tax return under Reg. §1.1502-21T(b)(3)(v)(A)(i), the effect of which would be to allow the consolidated group to utilize additional net operating losses to offset income for purposes of calculating alternative minimum tax due. In October 2016, the IRS granted the request, and \$4.5 million was recorded as a Federal tax refund in 2016. In December 2016, Legion received a \$3.4 million refund for the 2015 tax return and in January 2017, Legion received a \$1.1 million refund for the 2014 tax return. In 2017, Legion's parent company elected

to deconsolidate the tax group. Legion expects no additional tax liabilities or refunds in future years.

6. Guaranty Fund Claims and Expense Information.

The GAs are an essential part of the liquidation safety net, providing significant coverage to certain policyholders and paying covered claims as defined and required by their respective statutes. Legion has continuously worked with the National Conference of Insurance Guaranty Funds (“NCIGF”) to assure the smooth interaction between the Estate and the state guaranty funds. The NCIGF’s members include almost all of the state property and casualty insurance GAs in the United States. All aspects of cooperation between the Estate and GAs are discussed with the NCIGF. Discussions and correspondence included matters such as Legion claim file distribution, claim handling procedures, communication protocols, GA data reporting and Uniform Data Standards protocol, Legion product and policy information, and deductible and policy aggregate tracking. Legion personnel have worked with specific NCIGF groups and committees on specific areas, such as large deductible recoveries.

a. Status of Uniform Data Standards (“UDS”).

A unit within Legion coordinates with the GAs and their vendors in managing the data reporting process and the quality of data reported by GAs. As of the Claims Bar Date, 48 GAs reported paid and outstanding loss information via electronic UDS files, either sent directly to Legion or submitted to the NCIGF secure FTP website. The electronic files received from GAs are interfaced to a processing application at Legion, where the data is parsed and edited. Resolution of data errors is coordinated with the respective GA. The data is then interfaced to Legion’s policy/claim system to support Estate functions. As NODs have been issued to

individual GAs, those GAs have ceased reporting UDS files to Legion. As of December 31, 2017, Legion was accepting UDS files from 3 GAs.

Data quality is additionally monitored through various reports and procedures, which specifically address aspects of the UDS data, such as Net Worth recoveries and large deductible recoveries.

b. Guaranty Fund Claim Overview – EXHIBIT H.

The Guaranty Fund Claim Overview Report (“COR”) summarizes by state the policyholder benefit claims and administrative expenses received and applied by Legion from those GAs whose proofs of claim have not yet been evaluated. The Guaranty Fund NODs Accepted Report (“NAR”) summarizes by state the policyholder benefit claims and administrative expenses for those GAs where NODs have been issued.

The COR data represents UDS claims paid inception-to-date and claim reserve information on claims incurred through the Claims Bar Date for the 3 GAs which have not yet been issued NODs on their proofs of claim. Administrative expenses were updated from the quarterly Financial Information Questionnaires through the Claims Bar Date. Legion adjusted the COR for states which triggered the estate’s liquidation prior to July 28, 2003, post-liquidation claim payments made on behalf of GAs, questionable settlements and deductible recoveries Legion also adjusted for disallowed administrative expenses.

The COR is a summary of the GAs’ preliminary documentation supporting their proofs of claim against the Estate. Based on the documentation provided, Legion provides the GAs with early access monies to help fund the administrative and policyholder benefit payments made by the GAs on Legion’s behalf. Through the formal NOD process, all such claims and expenses are being finally settled.

Subsequent to the Claims Bar Date, Legion began issuing NODs for GA administrative expense and for GA loss and loss adjustment expense POCs based on Legion's continuing review of each GA's reported amounts. As of December 31, 2017, NODs for \$82.3 million of GA administrative expense and \$994.2 million of loss and loss adjustment expense have been issued and accepted by 55 GAs. The NAR data summarizes by state the confirmed and agreed valuations of the class (a) administrative expense and class (b) policyholder benefit claims as reflected on the NODs issued to those GAs.

7. Claims Process.

The deadline for filing POCs was June 30, 2005. As of December 31, 2017, Legion and Villanova combined had received a total of 46,149 POC claims. Of those, 2,765 were received after the claim filing deadline. On April 29, 2015, the Court entered an Order establishing a Claims Bar Date. The Order provides that all claims must have matured into a legal cause of action and a Proof of Claim filed with the Estate by July 28, 2015. POCs filed prior to the Claims Bar Date have been evaluated consistent with the Order and the late filing provisions of the Act.

a. Proofs of Claim Statistics – EXHIBIT I (Inception-to-Date).

As of December 31, 2017, Legion had issued and accepted NODs for 41,475 of the 41,484 POC claims assigned to it for a total allowed amount of \$1.3 billion. Accepted NODs accounted for approximately 99.9% of the POC claims filed with the Estate. The Court has approved 41,363 of these NODs, as of December 31, 2017, for a total allowed amount of \$179.7 million. Exhibit I breaks down this information by priority class. NODs will be issued for all POCs received prior to the Claims Bar Date.

b. Proofs of Claim Statistics – EXHIBIT J (Quarter-to-Date).

During the quarter ended December 31, 2017, Legion completed reclassifications and/or set-up new suffixes for multiple claims on individual POCs received prior to the Claims Bar Date which resulted in no change for the quarter. An additional 8 NODs were issued during the period and 9 were accepted.

c. Notice of Determination Objection Statistics – EXHIBIT K.

As of December 31, 2017, the Liquidator had received a total of 943 objections on the 41,477 NODs issued. As of December 31, 2017, Legion had resolved 941 objections. As of December 31, 2017, the 2 unresolved objections had received reports and recommendations from the assigned referee, and were awaiting rulings from the Commonwealth Court. Exhibit K indicates the status of all objections received through December 31, 2017, breaks down this information by priority class and includes the Allowed Amounts for objections in each priority class.

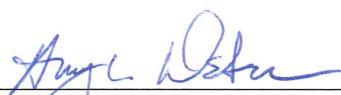
d. Status of Distribution.

Since February 2008, on a semi-annual basis the Liquidator has filed a Petition for Approval of Report and Recommendations on Legion Insurance Company Claims Undisputed and Resolved (“Report of Claims”). The Report of Claims lists the allowed amounts of non-GA claimant NODs that had been accepted or assumed accepted in the prior six month period. On July 24, 2017, the Liquidator filed the most recent Report of Claims for the period January 1, 2017 to June 30, 2017. The Court granted the petition on September 15, 2017. The allowed amounts on NODs approved for distribution are listed by priority class on Exhibit I.

On December 2, 2011, the Liquidator filed an Amended Petition for First Interim Distribution Pursuant to 40 P.S. § 221.46, in which, inter alia, the Liquidator petitioned the Court

for an Order allowing the Liquidator to hold back from interim distributions to claimants which have made claims against the Estate under policies having aggregate limits of liability, and have received approved notices of determination a “certain portion of the aggregate limits to address any future developments with Unevaluated POCs.” The purpose of the “Safety Factor Percentage” of 50% of each aggregate limit held back from such interim distributions was to ensure that all claimants under the same policy’s aggregate limits would receive the same percentage of the policy’s limit. The Petition was granted by Court Order dated February 27, 2012. Legion has now determined that no non-GA POC claims have exceeded the aggregate limits of any affected policies. On June 1, 2017, the Liquidator filed an application with the Court seeking elimination of the Safety Factor Percentage. The Court granted the application on July 11, 2017. In September 2017, the Estate released approximately \$1.9 million in funds previously withheld pursuant to the February 27, 2012 order.

Respectfully submitted,



AMY L. WEBER (I.D. #45447)
Insurance Department Counsel
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(717) 787-6009

Counsel for Jessica K. Altman, Acting Insurance
Commissioner of the Commonwealth of
Pennsylvania, in her official capacity as Statutory
Liquidator of Legion Insurance Company (In
Liquidation)

DATED: 2/13/18

5. I verify that the matters stated therein are true and correct to the best of my knowledge, information and belief, and make these statements subject to the penalties of 18 Pa.C.S. § 4904 relating to unsworn falsification to authorities.


ROBERT E. HABERLE

Sworn to and subscribed before me
this 12 th day of February, 2017.


NOTARY PUBLIC

COMMONWEALTH OF PENNSYLVANIA
NOTARIAL SEAL
ROBERT J. LENAHAN, Notary Public
City of Philadelphia, Phila. County
My Commission Expires December 14, 2019

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

In Re: Legion Insurance Company :
(In Liquidation) : No. 1 LEG 2002

**AFFIDAVIT OF GERALD V. BEHR
IN SUPPORT OF THE FOURTH QUARTER 2017
FINANCIAL REPORT OF THE LIQUIDATOR**

I, **GERALD V. BEHR**, hereby depose and state as follows:

1. I am Vice President and Chief Financial Officer of Legion Insurance Company (In Liquidation)(“Legion”) and Villanova Insurance Company (In Liquidation) (“Villanova”) (collectively, “the Estates”), am a currently licensed Certified Public Accountant, and am responsible for overseeing all aspects of the Estate’s financial operations.
2. I assisted in the direction of the preparation of the Fourth Quarter 2017 Financial Report of the Liquidator (“the Report”), and make this certification in reliance on the assistance and support of qualified staff and the Estates’ internal procedures for financial operations.
3. I certify that the Exhibits attached to the Report fairly present the following:
 - A. Special Purpose Statement of Assets and Liabilities: Exhibit “A” to the Report is the Special Purpose Statement of Assets and Liabilities for the

Estates as of December 31, 2017. As reflected in the Note accompanying these Statements, it has been prepared on a unique financial reporting basis, subject to the several assumptions and qualifications stated therein.

- B. Statement Reflecting Statutory Capital and Surplus Account: Exhibit “B” to the Report is the Statement reflecting the Statutory Capital and Surplus Account for the Estates for the period December 31, 2001 through December 31, 2017.
- C. Monthly Cash Flow Summary: Exhibit “C” is the cash flow summary on a monthly basis for the Estate including investment transactions for the period January 1, 2017 through December 31, 2017.
- D. Notes to Special Purpose Statement of Assets and Liabilities: Exhibit “D” contains information explaining the unique financial reporting basis used to prepare the Special Purpose Statement.
- E. Combined Expense Analysis: Prior to receivership, Legion, Villanova and Legion Indemnity Company (“Indemnity”) operated with an expense sharing agreement pursuant to which Legion paid the common expenses for all three companies through July 2003. Under the expense sharing agreement, common expenses were allocated 80% to Legion, 10% to Villanova and 10% to Indemnity. Following entry of the Court’s Orders placing Legion and Villanova into liquidation in July, 2003, the expenses were allocated 90% to Legion and 10% to Villanova. The schedules attached to the Report relating to expenses represent the expenses paid or incurred by the Estates on a consolidated basis, including all common expenses, before any allocation.

Exhibit “E” is a schedule reflecting the combined incurred expenses of the Estates from January 1, 2017 through December 31, 2017 together with a comparison, by category of expense, between 2017 actual and the 2017 budget and between 2016 and 2017 actuals. There have been no significant unfavorable variances between the budgeted and actual accrued expenses.

Exhibit E provides the accrued administrative expenses of the Estates including salaries and employee benefits for the period of January 1, 2017 through December 31, 2017 except for certain guaranty association expenses that may qualify as administrative expenses of the Estates.

- F. Professional Services Paid and Incurred: Exhibit “F” is a schedule reflecting the amounts which the Liquidator paid or amounts which the Liquidator has incurred as a result of the performance of services by various professional vendors, including accounting and actuarial firms, consultants on reinsurance and other matters, premium audit and collection services, and other support service providers, during the period January 1, 2017 through December 31, 2017. Legal vendors, including law firms and other litigation and support service providers, are broken out separately on Exhibit “F.”
- G. Reinsurance Recoverables due or Billable Net: Detailed information relating to reinsurance recoverables of the Estate due or billable net as of December 31, 2017 is submitted as Exhibit “G.”
- H. Guaranty Fund Claim Overview Report: Summary information for liquidation class (“Class”) A and B claims at a state guaranty association level is provided in Exhibit “H.” This information may include adjustments for

inaccuracies in GA data reporting or material expenses, as appropriate. This information excludes any state guaranty associations which have formed an ancillary to administer their claims.

- I. Proof of Claim Statistics Inception to Date: Exhibit “T” provides inception to date summary information at a Class level of various proof of claims statistics.
 - J. Proof of Claim Statistics Quarter to Date: Exhibit “J” provides quarter to date summary information at a Class level of various proofs of claims statistics.
 - K. Notice of Determination Objection Statistics: Summary information at a class level of Notice of Determination Objections received, resolved and unresolved is provided in Exhibit “K”. Additional summary information is also provided related to unresolved objections.
4. Based on my knowledge, the financial information included in the Report fairly presents in all material respects the financial condition, results of operations and cash flows for the Fourth Quarter of 2017.

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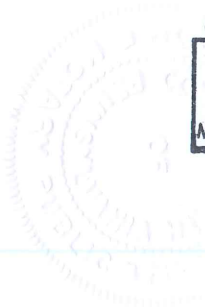
I verify that the matters stated herein are true and correct to the best of my knowledge, information and belief, and make these statements subject to the penalties of 18 Pa.C.S. § 4904 relating to unsworn falsification to authorities.


GERALD V. BEHR

Sworn to and subscribed before me
This 12th day of February, 2017.


NOTARY PUBLIC

COMMONWEALTH OF PENNSYLVANIA
NOTARIAL SEAL
ROBERT J. LENAHAN, Notary Public
City of Philadelphia, Phila. County
My Commission Expires December 14, 2019



CERTIFICATION

I, Amy L. Weber, Governor's Office of General Counsel, assigned to the Office of Liquidations, Rehabilitations and Special Funds of the Pennsylvania Insurance Department, am duly authorized to make this Certification for and on behalf of Jessica K. Altman, Acting Insurance Commissioner of the Commonwealth of Pennsylvania, in her official capacity as Statutory Liquidator ("Liquidator") of Legion Insurance Company. I am responsible for reviewing the invoices and documents received from outside counsel supporting the legal fees and expenses for Exhibit F to the Quarterly Report of the Liquidator on the Status of the Liquidation of Legion Insurance Company as of December 31, 2017, and I certify that these legal fees and expenses are reasonable and necessary. I also have reviewed Exhibit E, the Combined Expense Analysis for Legion Insurance Company (In Liquidation) and Villanova Insurance Company (In Liquidation) and certify that the legal fees and expenses stated therein have been reflected accurately. I understand that this Certification is made subject to the penalties of 18 Pa. C.S. § 4904 relating to unsworn falsification to authorities.



Amy L. Weber
Insurance Department Counsel

Dated: 2/13/18

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

In Re: Legion Insurance Company, : No. 1 LEG 2002
(In Liquidation) :

**EXHIBITS A - K
QUARTERLY REPORT OF THE LIQUIDATOR
ON THE STATUS OF THE LIQUIDATION
OF LEGION INSURANCE COMPANY
AS OF DECEMBER 31, 2017**

EXHIBIT

A

Legion Insurance Company (In Liquidation)
Special Purpose Statement of Assets and Liabilities*
December 31, 2017 and December 31, 2016
(In Millions of Dollars)

	12/31/2017	12/31/2016
ASSETS		
Cash investments:		
Fixed income securities	\$ 3.0	\$ 184.0
Money market deposits	455.1	278.3
Total cash and invested assets	458.1	462.3
Estimated losses and loss adjustment expense reserves - ceded	-	0.4
Reinsurance recoverables due or billable, net	-	0.9
Early access advances	1,690.6	1,681.3
State deposits and unapplied state deposits available for early access	1.0	7.5
Other assets	0.2	2.3
Total Assets	\$ 2,149.9	\$ 2,154.7
LIABILITIES		
Estimated Priority Class		
A - Administrative expenses:		
Liquidator expenses incurred since liquidation	\$ 455.9	\$ 447.8
Liquidator expenses paid since liquidation	(454.8)	(446.9)
Liquidator expenses	1.1	0.9
Guaranty associations paid ULAE reported	127.8	193.2
Guaranty associations NODs accepted	82.3	18.9
Guaranty associations' reserves ULAE	-	6.3
Total	\$ 211.2	\$ 219.3
B - Claims for policy benefits:		
Guaranty associations paid (including large deductible)	904.0	1,487.9
Guaranty associations NODs accepted	994.2	229.2
Liquidator valued NODs accepted	59.0	58.1
Asset distribution payments, net	(29.4)	(27.1)
Estimated reserves - guaranty associations	207.4	448.8
Estimated reserves - other	-	130.8
Total	2,135.2	2,327.7
C - Federal government claims		
Liquidator valued NODs accepted	0.9	0.9
D - Certain employee claims		
	-	-
E - General creditor claims		
Liquidator valued NODs accepted	89.5	89.5
Estimated value	0.3	0.3
Total	89.8	89.8
F - State and local government claims		
Liquidator valued NODs accepted	26.9	26.9
G - Late filed claims		
Liquidator valued NODs accepted	3.4	3.4
Total liabilities	2,467.4	2,668.0
Net surplus (deficit)	(317.5)	(513.3)
Total Liabilities and Surplus (Deficit)	\$ 2,149.9	\$ 2,154.7

* See Notes to Special Purpose Statement of Assets and Liabilities

EXHIBIT
B

Legion Insurance Company (In Liquidation)
Statutory Capital and Surplus Account
For the various periods
(in millions of Dollars)

Surplus as regards to policyholders, as of December 31, 2001	\$ 298.3
Net loss:	
Underwriting loss, net	(30.6)
Investment income, net	(0.8)
Other income (expenses), net	3.4
Loss before income taxes	(28.0)
Federal & foreign income taxes	-
Net loss	(28.0)
Change in net unrealized capital gains (losses)	3.2
Change in net deferred income tax	(42.3)
Change in non-admitted assets	47.7
Change in provision for reinsurance	-
Change in surplus for the period	(19.4)
Surplus as regards to policyholders, as of March 31, 2002	278.9
<u>Surplus activity during Rehabilitation Period:</u>	
Net loss:	
Underwriting loss, net	(279.0)
Investment income, net	10.5
Other income (expenses), net	(5.1)
Net loss	(273.6)
Change in net unrealized capital gains (losses)	(25.6)
Change in net deferred income tax	-
Change in non-admitted assets	(18.5)
Change in provision for reinsurance	22.7
Change in surplus for the period	(295.0)
Surplus as regards to policyholders, as of July 28, 2003	(16.1)
<u>Surplus activity during Liquidation:</u>	
Net loss:	
Underwriting gain, net	66.8
Class A - Administrative expenses	(661.4)
Class A - Investment expense	(4.6)
Investment income	196.4
Other income (expenses), net	37.1
Net loss	(365.7)
Change in net unrealized capital gains (losses)	2.1
Change in non-admitted assets	62.2
Change in surplus for the period	(301.4)
Surplus as regards to policyholders, as of December 31, 2017	\$ (317.5)

EXHIBIT
C

**EXHIBIT
D**

Legion Insurance Company (In Liquidation)
Notes to Special Purpose Statement of Assets and Liabilities

The Special Purpose Statement of Assets and Liabilities of Legion Insurance Company (In Liquidation) is prepared on a unique financial reporting basis in that the statement does not reflect the effect of the companies' liquidation. The liquidation process will result in the realization of amounts on transfer or disposition of assets and in the satisfaction of liabilities at amounts that may be substantially different than those reflected in the accompanying statement of assets and liabilities. The statement does not include any adjustments that might result from outcomes of the uncertainties related to the future effects of the liquidation and various potential exposures, recoveries or benefits. Specifically, the following facts should be noted in reviewing the accompanying Special Purpose Statement of Assets and Liabilities:

- Estimated priority class of claims from the insurers' estates is set forth in detail in Article V of the Commonwealth of Pennsylvania Insurance Department Act of 1921 at 40 P.S. § 221.44. The classes are:
 - A Administrative expenses
 - B Claims for policy benefits
 - C Federal government claims
 - D Certain employee claims
 - E General creditor claims
 - F State and local government claims
 - G Late filed claims

Note: Administrative expenses include both the guaranty associations' expenses related to administering the claims of the companies in liquidation and the Liquidator's expenses.

- The recorded priority class B reflected on the Special Purpose Statement of Assets and Liabilities is based primarily on guaranty association paid claims, POCs and NODs issued, any known case reserves and actuarial estimates of expected losses on an undiscounted basis;
- There is an estimated provision for current guaranty association costs that have been incurred by the estates and for the open claim runoff as of the Claims Bar Date;
- There is no provision for future internal operating costs to execute the activities and responsibilities of the estates in the liquidation process through the date of the final liquidation of the estates;
- There is no provision for potential federal income tax liabilities in future years, if any;
- For classes below (b), liabilities are carried at NOD accepted value, except for NODs issued on a "Class Only" basis, which are carried at \$0.

The Special Purpose Statement of Assets and Liabilities is not intended to be in conformity with and may vary significantly from generally accepted accounting principles and statutory accounting practices for a property and casualty insurance company as prescribed by the National Association of Insurance Commissioners. Certain presentation reclassifications have been made to reflect the estimated priority classes.

EXHIBIT
E

**LEGION INSURANCE COMPANY (IN LIQUIDATION)
 VILLANOVA INSURANCE COMPANY (IN LIQUIDATION)
 COMBINED EXPENSE ANALYSIS BY ACCOUNT
 December 31, 2017 ACTUAL vs BUDGET
 (\$ In Thousands)**

	Year to Date				2017 Actual vs 2017 Budget		2017 Actual vs 2016 Actual	
	2017 Actual	% of Total Operating	2017 Budget	2016 Actual	Variance	Percent Variance	Variance	Percent Variance
Full time Employee Equivalents	25		19	26	(6)	-31.6%	1	3.8%
General & Administrative Expenses								
Labor, Benefits, & Payroll Taxes:								
Labor - Internal & External	\$ 4,973		\$	5,396			\$ 423	7.8%
Benefits & Payroll Taxes	862			1,057			195	18.5%
Total Labor, Benefits, and Payroll Taxes	5,835	66.2%	6,094	6,453	259	4.3%	618	9.6%
Occupancy	674	7.6%	707	1,031	33	4.7%	357	34.6%
Equipment	553	6.3%	555	1,037	2	0.3%	484	46.7%
Legal Fees and Expenses	177	2.0%	465	217	288	61.8%	40	18.3%
Professional Services								
Reinsurance	-	0.0%	-	3	-	n/a	3	100.0%
Other	67	0.8%	135	215	68	50.6%	148	69.0%
IT Services	475	5.4%	486	603	11	2.2%	128	21.2%
Liquidator Costs	455	5.2%	470	449	15	3.1%	(6)	-1.3%
Other	572	6.5%	659	650	87	13.2%	78	12.0%
Total Operating Expenses	8,808	100.0%	9,571	10,658	763	8.0%	1,850	17.4%
Revenue								
Revenue for Collecting Large Deductible Recoveries as Provided by PA Statute Act 46	-		-	(3)	-	n/a	(3)	n/a
Reimbursement from a Guaranty Association for prior years legal expense	(122)		-	-	122	n/a	122	100.0%
Total Revenue	(122)		-	(3)	122	n/a	119	97.2%
Net Operating Expenses	\$ 8,686		\$ 9,571	10,655	\$ 885	9.2%	\$ 1,969	18.5%
Federal Income Taxes (Refunds)	-			(5,232)				
Total Net Combined Expenses	\$ 8,686			\$ 5,423				

EXHIBIT
F

Legion Insurance Company (In Liquidation)
 Villanova Insurance Company (In Liquidation)
 Legal Fees and Expenses and Professional Services Paid
 January 1, 2017 - December 31, 2017

Classification	VENDOR NAME	Services Provided	2017 Total
Legal Fees and Expenses	DUANE MORRIS LLP	General Litigation	108,101
	LEXISNEXIS	Legal Research Fees	3,727
	PRICEWATERHOUSE COOPERS LLP	Expert Witness-NOD Objection Proceeding	18,401
	DANIEL STERN, REFEREE	Referee Fees	11,729
	STRADLEY RONON STEVENS & YOUNG LLP	Liquidation Legal Counsel	1,606
	WEST PUBLISHING CORPORATION	Legal Research Fees	31,736
	Aggregate Amount for Total Vendor Payments Under \$1,000	General Legal Support Costs	1,238
Total Legal Fees and Expenses Paid			176,538
Change in Legal Fees and Expenses accrual and other non-cash transactions			26
Total Legal Fees and Expenses Incurred			176,564
Professional Services	ASHDAR PARTNERS, INC.	IT Consulting	135,500
	COMPUTER SCIENCES CORPORATION	Data Processing	350,480
	ERNST & YOUNG LLP	Tax Consulting	44,544
	JOHNSON LAMBERT & COMPANY LLP	Audit Services	39,542
	MARCUM LLP	Human Resources Consulting	19,500
Total Professional Services Paid			589,566
Change in Professional Services accrual and other non-cash transactions			(47,701)
Total Professional Services Incurred			541,865
Total Legal Fees and Expenses and Professional Services Incurred			718,429

* All expenses above are gross before any allocation among Legion Insurance Company (In Liquidation), Villanova Insurance Company (In Liquidation)

**EXHIBIT
G**

**Legion Insurance Company (In Liquidation)
Reinsurance Recoverables Due or Billable, Net
December 31, 2017**

Reinsurer

Amount

NONE

**EXHIBIT
H**

Legion Insurance Company (in Liquidation)
 Guaranty Fund Claim Overview Report
 A level as of September 30, 2015
 B Level as of December 31, 2017

State	GA	Number Files Assigned	Number Files Complete	Number Files outstanding	A- Level Paid Admin Exp	B - Level Paid Losses and Loss Adj Expenses	B- Level Known Case Reserves
CA	360	39,262	38,217	1,045	84,801,251	611,347,952	113,580,834
GA	310	3,111	3,095	16	6,854,616	83,900,207	16,545,930
NY	331/431	7,356	7,111	245	36,181,550	208,752,968	77,297,909
		49,729	48,423	1,306	\$ 127,837,417	\$ 904,001,126	\$ 207,424,673

Legion Insurance Company (in Liquidation)
 Guaranty Fund - NODs Accepted
 As of December 31, 2017

State	GA	Number Files Assigned	A- Level Paid Admin Exp	B - Level Paid Losses and Known Case Reserves, and Loss Adj Expenses
AK	354	35	\$ 23,458	\$ 1,850,911
AL	301	617	3,421,600	58,646,249
AR	303	241	269,798	3,866,118
AZ - PC	402	117	460,941	1,156,249
AZ - SFIC	302	352	914,638	10,071,164
AZ- WC	402	42	162,312	8,529,954
CO	305	413	966,994	12,449,795
CT	306	1,342	4,126,177	33,461,051
DC	308	60	599,803	5,016,559
DE	307	116	393,994	2,664,241
FL	309	753	1,997,848	54,504,843
FL	409	680	1,447,918	27,920,365
HI	352	45	163,112	1,705,381
IA	314	145	389,745	2,626,535
ID	311	67	145,226	1,565,894
IL	312	2,037	5,529,700	42,120,013
IN	313	204	594,900	2,599,673
KS	315	326	659,783	13,411,110
KY	316	456	1,689,874	25,411,385
LA	317	292	902,428	8,785,929
MA	320	3,749	7,838,046	50,287,000
MD	319	430	2,085,460	12,885,355
ME	318	262	789,915	4,222,095
MI	321	652	1,962,955	23,364,347
MN	322	197	510,723	5,405,806
MO	324	683	1,206,707	16,642,306
MS	323	1,352	4,491,632	59,525,187
MT	325	100	678,948	5,198,260
NC	332	1,500	3,659,552	40,265,420
ND	333	7	84,757	416,975
NE	326	112	451,515	6,639,406
NH	328	544	987,584	7,136,412
NJ	329	1,836	2,842,991	73,034,442
NJ	429	1,215	1,562,585	37,006,096
NM	330	98	415,100	4,630,767
NOLHGA	370	424	1,659,145	2,786,023
NV	327	1,130	1,850,360	10,888,083
OH	334	121	660,490	1,637,666
OK	335	717	2,115,955	16,928,254
OR	336	177	575,170	8,229,670
PA	337	999	2,998,512	70,744,451
PA	437	701	961,238	13,744,910
PR	358	-	0	0
RI	338	302	506,485	3,824,823
SC	339	1,442	2,822,535	48,161,345
SD	340	32	87,925	623,360
TN	341	1,609	4,878,323	51,597,608
TX	342	2,217	4,316,783	48,873,530
UT	343	65	221,532	842,706
VA	345	632	2,709,760	35,943,419
VT	344	319	588,678	6,494,308
WA	346	84	125,976	718,122
WI	348	194	625,934	4,995,526
WV	347	34	170,000	1,097,509
WY	349	8	44,941	1,094,336
GA NODs accepted			<u>\$ 82,348,461</u>	<u>\$ 994,248,942</u>

EXHIBIT
I

Legion Insurance Company (In Liquidation)
 Proofs of Claim Statistics
 Inception to Date December 31, 2017

Class Descriptions	Total # of POC Claims Received *	# of POC Claims Received After 6/30/05	# of NODs Issued	# of NODs Accepted	Allowed Amounts on Accepted NODs	# of NODs Approved for Distribution	Allowed Amounts on NODs Approved for Distribution
A - Administrative Expenses - non GA	1,107	35	1,107	1,106	\$ 0	1,106	\$ 0
A - Administrative Expenses - GA	58	-	55	55	82,348,461	-	-
B - PolicyHolder Claims - non GA	14,787	1,055	14,787	14,787	58,972,898	14,786	58,928,558
B - PolicyHolder Claims - GA	58	-	55	55	994,248,942	-	-
C - Federal Government	2	1	1	1	930,649	1	930,649
D- Employees	-	-	-	-	-	-	-
E - General Credit/UEP	19,053	376	19,053	19,052	89,475,345	19,052	89,475,345
F- State/Local Government	121	5	121	121	26,905,367	121	26,905,367
G- Late Filed/Subrogation	6,298	1,044	6,298	6,298	3,448,000	6,297	3,448,000
H - Surplus, Prem. Refunds	-	-	-	-	-	-	-
I- Shareholders/Other Owners	-	-	-	-	-	-	-
No Class	-	-	-	-	-	-	-
TOTALS	41,484	2,516	41,477	41,475	\$ 1,256,329,662	41,363	\$ 179,687,919

* Includes new suffixes set-up on POCs received prior to the Claims Bar Date of 7/28/2015. A POC may have more than one suffix to address multiple claims presented in a single POC. A NOD is issued for each valid suffix.

EXHIBIT
J

Legion Insurance Company (In Liquidation)
 Proofs of Claim Statistics
 Quarter to Date December 31, 2017

Class Descriptions	Total # of POC Claims Received	# of NODs Issued	# of NODs Accepted	Allowed Amounts on Accepted NODs	# of NODs Approved for Distribution	Allowed Amounts on NODs Approved for Distribution
A - Administrative Expenses - non GA	-	-	-	\$ 0	-	\$ 0
A - Administrative Expenses - GA	-	4	4	20,527,520	-	-
B - PolicyHolder Claims - non GA	-	-	1	44,340	-	-
B - PolicyHolder Claims - GA	-	4	4	214,314,987	-	-
C - Federal Government	-	-	-	-	-	-
D- Employees	-	-	-	-	-	-
E - General Credit/UEP	-	-	-	-	-	-
F- State/Local Government	-	-	-	-	-	-
G- Late Filed/Subrogation	-	-	-	-	-	-
H - Surplus, Prem. Refunds	-	-	-	-	-	-
I- Shareholders/Other Owners	-	-	-	-	-	-
No Class	-	-	-	-	-	-
TOTALS	-	8	9	\$ 234,886,847	-	\$ 0

EXHIBIT
K

Legion Insurance Company (In Liquidation)
 Notice of Determination Objection Statistics
 Inception to Date December 31, 2017

Class Descriptions	Total # NOD Objections Received	Allowed Amounts on Objections	# of Objections Resolved	Allowed Amounts on Objections Resolved
A - Administrative Expenses	9	\$ 0	8	\$ 0
B - Policyholder Claims	343	3,108,511	343	3,108,511
C - Federal Government	-	-	-	-
D- Employees	-	-	-	-
E - General Credit/UEP	519	14,452,707	518	14,452,707
F- State/Local Government	4	11,971	4	11,971
G- Late Filed/Subrogation	68	1,046,022	68	1,046,022
H - Surplus, Prem. Refunds	-	-	-	-
I- Shareholders/Other Owners	-	-	-	-
TOTALS	943	\$ 18,619,211	941	\$ 18,619,211

Class Descriptions	Total Objections	Allowed Amounts on Objections		# of Objections		Allowed Amounts on Objections	
		Unresolved	Resolved	Unresolved Assigned to Referees	Resolved Assigned to Referees	Unresolved Not Assigned to Referees	Resolved Not Assigned to Referees
A - Administrative Expenses	1	\$ 0	\$ 0	1	0	\$ 0	\$ 0
B - Policyholder Claims	-	-	-	-	-	-	-
C - Federal Government	-	-	-	-	-	-	-
D- Employees	-	-	-	-	-	-	-
E - General Credit/UEP	1	0	0	1	0	0	0
F- State/Local Government	-	-	-	-	-	-	-
G- Late Filed/Subrogation	-	-	-	-	-	-	-
H - Surplus, Prem. Refunds	-	-	-	-	-	-	-
I- Shareholders/Other Owners	-	-	-	-	-	-	-
TOTALS	2	\$ 0	\$ 0	2	0	\$ 0	\$ 0