Docket #0003 Date Filed: 8/31/2018

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**UNITED STATES BANKRUPTCY COURT**
**CENTRAL DISTRICT OF CALIFORNIA - LOS ANGELES DIVISION**

In re

VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*,

Debtors and Debtors In Possession.

☒ Affects All Debtors
☐ Affects O'Connor Hospital
☐ Affects Saint Louise Regional Hospital
☐ Affects St. Francis Medical Center
☐ Affects St. Vincent Medical Center
☐ Affects Seton Medical Center
☐ Affects O'Connor Hospital Foundation
☐ Affects Saint Louise Regional Hospital Foundation
☐ Affects St. Francis Medical Center of Lynwood Medical Foundation
☐ Affects St. Vincent Foundation
☐ Affects St. Vincent Dialysis Center, Inc.
☐ Affects Seton Medical Center Foundation
☐ Affects Verity Business Services
☐ Affects Verity Medical Foundation
☐ Affects Verity Holdings, LLC
☐ Affects DePaul Ventures, LLC
☐ Affects DePaul Ventures - San Jose Dialysis, LLC

Debtors and Debtors In Possession.

VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*,

Debtors and Debtors In Possession

Plaintiff,

v.

OLD REPUBLIC INSURANCE COMPANY and CITY NATIONAL BANK,

Defendants.

Lead Case No. 2:18-bk-20151-ER

(Proposed To Be) jointly administered with:

| | |
|---|---|
| Case No. 18- | Case No. 18- |
| Case No. 18- | Case No. 18- |
| Case No. 18- | Case No. 18- |
| Case No. 18- | Case No. 18- |
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| Case No. 18- | Case No. 18- |
| Case No. 18- | Case No. 18- |
| Case No. 18- | Case No. 18- |
| Case No. 18- | Case No. 18- |

Chapter 11 Cases

**EX PARTE EMERGENCY MOTION FOR TEMPORARY RESTRAINING ORDER WITHOUT NOTICE AND PRELIMINARY INJUNCTION ENJOINING DEFENDANT FROM MAKING CERTAIN DRAWS ON A LETTER OF CREDIT; MEMORANDUM OF POINTS AND AUTHORITIES AND DECLARATIONS IN SUPPORT THEREOF**

[Filed Pursuant to LBR 2081-1(a)(12) and 9075-1(a)]

[Declaration of Richard Adcock in Support of Debtors' First Day Motions filed concurrently herewith]

Adv. Proc. No. 2:18-ap-01277-ER

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**EX PARTE EMERGENCY MOTION, WITHOUT NOTICE**

Verity Health System Of California, Inc. ("VHS") and the above-referenced affiliated debtors, the debtors and debtors in possession in the above-captioned Chapter 11 bankruptcy cases (the "Chapter 11 Cases") (collectively, the "Debtors"), hereby request that the Court grant ex parte temporary injunctive relief without notice under §§ 105 and 362 of the United States Bankruptcy Code, 11 U.S.C. §§ 101-1530 *et seq.* (the "Bankruptcy Code"),[1] and Rule 7065(b) of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules") and Local Bankruptcy Rule of the United States Bankruptcy Court for the Central District of California (the "LBR") 2081-1(a)(12), 7065-1(b)(1), 7007(1) and 9075-1 enjoining defendant Old Republic Insurance Company ("Old Republic"), Debtors' workers' compensation insurer, from drawing down, in full, the Letter of Credit (defined herein), which is in the amount of $34,087,296, based upon the Debtors' insolvency or bankruptcy filing until the confirmation of a plan or other resolution of this case.

**SUMMARY OF REQUESTED RELIEF**

The Debtors request that the relief sought herein be granted ex parte on an emergency basis without notice because they will suffer immediate and irreparable harm without the relief requested in this Motion and because, upon notice Old Republic could attempt to defeat the Motion by drawing on the Letter of Credit in full (unless a restraining order is in place). *See* Declaration of Samuel R. Maizel, attached hereto as **Exhibit A** (providing reasons why notice should not be required). As explained herein, a temporary injunction enjoining Old Republic from drawing the Letter of Credit in full is necessary to maintain the Debtors' insurance coverage postpetition and to avoid immediate and irreparable harm. If such draw on the Letter of Credit is made, the Debtors' wholly owned captive insurer, Marillac (defined herein), would be rendered insolvent and collapse. This insolvency will cause the Debtors to lose their professional and general liability insurance, excess insurance, and deductible liability protection insurance -- all of which were issued by Marillac. Such injunction, however, will cause no harm whatsoever to Old

[1] All references to "§" or "sections" herein are to portions of the Bankruptcy Code, unless otherwise noted.

Republic or the Letter of Credit issuer, City National Bank ("CNB"). The limited relief sought will not bar Old Republic from drawing the Letter of Credit to the extent needed to reimburse it for any amounts due to Old Republic, if not first paid by or on behalf of the Debtors in the ordinary course, and it will not bar CNB from executing on its collateral, liquid assets supplied by Marillac, *pro tanto* in the event of such draw. The requested injunction also does not enjoin Old Republic from drawing the Letter of Credit in full in the event that the Letter of Credit is not renewed and replacement security is not provided to Old Republic prior to the Letter of Credit's expiration on July 29, 2019.

The Letter of Credit fully secures the Debtors' WC Obligations to Old Republic under the Workers' Compensation Policy. The Letter of Credit has never been drawn on since it was initially issued on November 28, 2016 and has been renewed and reissued annually ever since. The Debtors have paid all premiums due under the Workers' Compensation Policy and the Deductible Liability Protection Policy Agreement, and Marillac has timely made payments for all of the Debtors' deductible obligations under the Workers' Compensation Policy. The Debtors believe that Marillac, a non-debtor organized in the Cayman Islands, will continue to make such payments postpetition and that the Debtors will make all premium payments.

A temporary restraining order should be entered without notice. Under the Program Agreement Endorsement to the Workers' Compensation Policy, Old Republic has the right to draw on the Letter of Credit to reimburse itself for amounts of deductibles, premiums and other obligations not paid first by the Debtors or Marillac or in the event the Letter of Credit is not renewed prior to expiration. *See* Workers' Compensation Policy, Program Agreement Endorsement, § 9.3, attached as Exhibit A to the Verified Complaint for Injunction Enjoining Defendant From Making Certain Draws On a Letter of Credit (the "Verified Complaint"). More pertinent here, Old Republic also has the right to draw the Letter of Credit in full in the event of the Debtors' insolvency or bankruptcy. *Id.* The Letter of Credit is a clean letter of credit, drawable on sight draft to be promptly honored by the issuer, CNB. *See* Letter of Credit, p. 2, Exhibit E to the Verified Complaint. The Letter of Credit does not set forth any conditions to the draw on the Letter of Credit other than the presentation of the sight draft. Therefore, if notice is

provided to Old Republic of the Motion for temporary restraining order, Old Republic could attempt to draw the Letter of Credit in full and defeat this Motion before it is heard.

For the same reasons, this Motion warrants immediate ruling upon the filing of the Debtors' bankruptcy petition; because once the Debtors' bankruptcy becomes public, Old Republic could attempt to defeat the Motion by drawing on the Letter of Credit in full. Pursuant to LBR 9075-1(a)(2)(B), the hearing can be set before the filing of this Motion and supporting declarations.

The Debtors should not be required to post a bond under LBR 7065-1(c). Indeed, Bankruptcy Rule 7065 specifically authorizes issuance of a temporary restraining order or preliminary injunction without posting a bond. Fed. R. Bankr. P. 7065 ("a temporary restraining order or preliminary injunction may be issued on application of a debtor, trustee, or debtor in possession without compliance with Rule 65(c)."). The Letter of Credit fully secures the WC Obligations (defined herein) to Old Republic and is secured by $34,087,296 of liquid Marillac assets. Adcock Dec., ¶ 76; Verified Complaint, ¶ 21. There is no need for additional security.

Further, the requested temporary restraining order is limited in scope in that it does not bar Old Republic from drawing the Letter of Credit to the extent necessary to reimburse itself for amounts of deductibles, premiums and other obligations not paid by the Debtors or Marillac in the ordinary course or in the event the Letter of Credit is not renewed and no substitute security is furnished prior to its expiration.

The maintenance of the Debtors' insurance coverage is vital to the operation of the Debtors' business, the hospitals and medical centers operated by the Debtors, and to the health, welfare, safety and security of the patients who seek medical care therein. *See* Verified Complaint, ¶ 36. The Debtors' health system is a vital safety net servicing over 300,000 patients in California per year. *Id.* The public interest in a hospital case includes the interests of patients and the health plans and payors who are responsible for ensuring adequate networks for their members. *Id.* Manifestly, "exigent circumstances exist justifying an expedited hearing" pursuant to LBR 2081-1(a)(12) to enjoin Old Republic from drawing the entire Letter of Credit.

Upon issuance of the temporary restraining order, counsel to the Debtors will serve this

Motion, the attached Memorandum of Points and Authorities on: (i) the Office of the United States Trustee; (ii) Old Republic; and (iii) City National Bank expeditiously by email, fax or personal service.

In the event that the Court grants the relief requested by the Motion, the Debtors shall provide notice of the entry of the order granting such relief upon each of the foregoing parties and any other parties in interest as the Court directs. The Debtors submit that such notice is sufficient and that no other or further notice be given.

**WHEREFORE**, for all the foregoing reasons and such additional reasons as may be advanced at or prior to the hearing regarding this Motion, the Debtors respectfully request that the Court enter an order (i) granting the relief requested herein and (ii) granting the Debtors such other and further relief as the Court deems just and proper.

Dated: August 31, 2018

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By */s/ Tania M. Moyron*
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## MEMORANDUM OF POINTS AND AUTHORITIES

## I. INTRODUCTION

The Debtors operate six acute care hospitals, multiple medical clinics and other healthcare facilities in the State of California, with approximately 1,680 inpatient beds, six active emergency rooms, a trauma center, over fifteen medical office buildings, and a host of medical specialties, including tertiary and quaternary care. Verified Complaint, ¶¶ 2-3.[2]

This adversary proceeding arises out of a Workers' Compensation and Employers Liability Insurance Policy issued by Old Republic to one or more of the Debtors, which provides coverage up to $1 million for each worker's compensation claim and includes a $500,000 deductible for each claim (the "Workers' Compensation Policy," Exhibit A to the Verified Complaint). One or more of the Debtors also entered into a Deductible Liability Protection Policy Agreement with insurer Marillac Insurance Company, Ltd. ("Marillac") where Marillac agreed to insure payment of the Debtors' deductible obligations under the Workers' Compensation Policy. A copy of the Deductible Liability Protection Policy Agreement is attached as Exhibit B to the Verified Complaint. Marillac is a wholly owned captive insurer of the Debtors, organized in the Cayman Islands. Verified Complaint, ¶ 14. Marillac also issued a Professional and General Liability Insurance Policy and an Excess Policy to the Debtors. Verified Complaint, ¶¶ 15-16.

The Workers' Compensation Policy required the Debtors to provide Old Republic a letter of credit as security for the Debtors' obligations under the Workers' Compensation Policy. *See* Workers' Compensation Policy - Program Agreement Endorsement, § 9.1. To satisfy this security requirement, the Debtors arranged for issuance of a letter of credit (the "Letter of Credit") with Old Republic as the beneficiary and Marillac as the applicant. Verified Complaint, ¶ 20. Marillac secured the Letter of Credit with $34 million in liquid assets held in an account with CNB. Verified Complaint, ¶ 21.

[2] Additional background facts on the Debtors, including an overview of the Debtors' business, information on the Debtors' debt structure and information on the events leading up to the chapter 11 cases, are contained in the Declaration of Richard Adcock in Support of First Day Motions.

Pursuant to §§ 105 and 362 and Rule 65 of the Federal Rules of Civil Procedure (incorporated by Bankruptcy Rule 7065), the Debtors request that the Court grant injunctive relief enjoining Old Republic from drawing down the Letter of Credit in full based upon the Debtors' insolvency or bankruptcy filing until the confirmation of a plan or the resolution of this case. If Old Republic is not enjoined under § 105 and Bankruptcy Rule 7065(b) from drawing down the entire Letter of Credit based upon the Debtors' bankruptcy filing, the Debtors will likely not be able to maintain its insurance coverage necessary to continue operations.

If the entire Letter of Credit is drawn by Old Republic, Marillac's assets securing the Letter of Credit will be subject to execution by CNB (unless restrained), causing Marillac to become insolvent under Cayman Islands law and eventually collapse. *See* Declaration of David Dinner, attached hereto as **Exhibit B**, ¶¶ 30-31. In consequence, this would have a catastrophic impact on the Debtors; they would lose their professional and general liability insurance coverage (which was issued by Marillac) and, given the Debtors' financial situation, it will be unlikely that they will be able to obtain affordable replacement coverage. Likewise, the collapse of Marillac would cause the Marillac Excess Policy either to be cancelled or otherwise unavailable as a source of insurance cover. *See* Declaration of David Dinner, ¶ 31. Although the Marillac Excess Policy is fully reinsured, if Marillac is unable to effect exhaustion of its primary payment because it is unable to pay covered losses, the excess layer, and hence reinsurance, may not be triggered (even assuming it is not cancelled). Moreover, the Debtors will lose coverage under the Marillac Deductible Liability Policy, making it unlikely that Old Republic would continue or renew the Workers' Compensation Policy. *Id.*

The Debtors, as employers and operators of a non-profit healthcare system in California, must maintain workers' compensation insurance coverage. *See, e.g.* Cal. Lab. Code § 3700 (requiring workers' compensation coverage). Also, as a practical and legal matter, the Debtors cannot operate a healthcare system without professional and general liability insurance, among other coverages. Verified Complaint, ¶ 17. If Old Republic draws on the entire Letter of Credit, the Debtors most likely will lose their insurance coverage and their ability to operate their business.

In this Chapter 11 case, the Debtors contemplate selling some or all of their assets, including hospitals, medical clinics and other healthcare facilities, to a third party as a going concern for the benefit of creditors and in the public interest as well as confirming a plan. *See Declaration of Richard Adcock in Support of First Day Motions* (the "Adcock Declaration"), ¶¶ 128-130. However, if the Debtors cease operating their business because of a cessation of operations caused by a loss of insurance coverage, they will lose the going concern value of their assets, making a plan, which pays all administrative and priority claims in full and provides a meaningful distribution to unsecured creditors, no longer viable.

## II. JURISDICTION AND VENUE

Section 1334(b) provides that "the district courts shall have original but not exclusive jurisdiction of all civil proceedings arising under title 11, or arising in or related to cases under title 11." 28 U.S.C. § 1334(b). The district courts may, in turn, refer "any or all proceedings arising under title 11 or arising in or related to a case under title 11 ... to the bankruptcy judges for the district." 28 U.S.C. § 157(a).

There is ample precedent which provides that an action to enjoin rights of a non-debtor pursuant to § 105(a) is a core matter under 28 U.S.C. § 157(b) because the requested injunction arises in or under title 11. *See e.g, In re Monroe Well Serv., Inc.*, 67 B.R. 746, 754 (Bankr. E.D. Pa. 1986) ("an action for an injunction under section 105 is a core proceeding under 28 U.S.C. § 157(b)."); *In re Carabetta Enters., Inc.,* 162 B.R. 399, 403 (Bankr. D. Conn. 1993) (same).

In *Celotex Corp. v. Edwards*, 514 U.S. 300, 309 (1995), the United States Supreme Court ruled that a motion to enjoin execution of a surety bond under § 105(a) was "at least a question 'related to' [the debtor's] bankruptcy," without determining whether the matter was core or non-core. The Supreme Court noted that it made no difference whether the action was core or non-core because the requested injunction was, as here, for an interlocutory stay and, thus, "the Bankruptcy Court did not lack jurisdiction under § 157(c)(1) to issue the Section 105 Injunction because the injunction was not a 'final order or judgment.'" *Celotex Corp.*, 514 U.S. at 309 n. 7.

In *In re American Hardwoods, Inc.*, 885 F.2d 621, 623 (9th Cir. 1989), the Ninth Circuit, like the Supreme Court, found that the bankruptcy court had, at a minimum, "related to"

jurisdiction over a proposed §105(a) injunction. The Ninth Circuit specified that the test to determine whether a bankruptcy court has related to jurisdiction over a proposed injunction against a non-debtor is "whether the requested injunction 'could conceivably' affect the plan . . . ." *In re Am. Hardwoods, Inc.*, 885 F.2d at 624.

As in *Celotex* and *American Hardwoods*, the Court has at least related to jurisdiction over this adversary proceeding. The outcome of this adversary proceeding would have an effect on the Debtors' ability to confirm a plan as well as its ability to sell some or all of its assets as operating hospitals and facilities. As explained herein, if Old Republic draws the entire Letter of Credit, this will cause CNB to seize the collateral of Marillac securing the Letter of Credit, which will result in the insolvency and ultimate collapse of Marillac. Once Marillac collapses, the Debtors will lose the insurance coverage provided by Marillac and ultimately will not be able to continue to operate. Once the Debtors cease operations, they will not be able to sell some or all of their assets as a going concern (to vast public detriment), making a chapter 11 plan, which pays all administrative and priority claims in full and provides a recovery to unsecured claimants, no longer viable. Accordingly, the Court has related to subject matter jurisdiction over this adversary proceeding.

Venue is also proper before this Court pursuant to 28 U.S.C. §§ 1408 and 1409.

## III. STATEMENT OF FACTS

### A. Old Republic and Marillac Insurance Policies

On August 31, 2018 (the "Petition Date"), the Debtors filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Central District of California, Los Angeles Division (the "Bankruptcy Court").

Prior to the Petition Date, one or more of the Debtors obtained the Workers' Compensation Policy with Old Republic. Verified Complaint, ¶ 13. The Workers' Compensation Policy provides coverage up to $1 million for each worker's compensation claim and includes a $500,000 deductible for each claim. *Id.* The current term of the Workers' Compensation Policy is from July 1, 2018 to July 1, 2019. *Id.* Under the Workers' Compensation Policy, the Debtors are liable to Old Republic for all deductible amounts that Old

Republic might pay on the Debtors' behalf. *Id.* However, in practice, Old Republic has never advanced deductible amounts; instead, Marillac (working with a third-party administrator) funds those payments. *Id.*

One or more of the Debtors also entered into a Deductible Liability Protection Policy Agreement with insurer Marillac. Verified Complaint, ¶ 14. Marillac is a captive insurer of the Debtors (*i.e.*, it is wholly owned by debtor Verity Health System of California, Inc.) and is organized in the Cayman Islands. *Id.* Marillac, as a Cayman Islands captive, is not admitted to transact insurance in the State of California and is not a member of, and its insureds have no protection from, a California guarantee association. Cal. Ins. Code. § 1063(a). The Cayman Islands also has no guarantee association protection for Marillac or its insureds. Declaration of David Dinner, ¶ 7. Under the Deductible Liability Protection Policy Agreement, Marillac agreed to insure payment of the Debtors' deductible obligations to Old Republic of up to $500,000 per claim under the Workers' Compensation Policy. Verified Complaint, ¶ 14. Marillac also issued professional and general liability insurance policies to one or more of the Debtors, both at the primary and excess levels. *Id.*, ¶¶ 15-16. A copy of the Marillac Professional and General Liability Policy is attached to the Verified Complaint as Exhibit C. The Marillac excess policy (the "Marillac Excess Policy," attached to the Verified Complaint as Exhibit D) provides excess coverage, not only for the Marillac primary professional and general liability policy, but also for automobile liability, heliport and non-owned aircraft liability, employer's liability and certain other general liability. *Id.*, ¶ 16. The Marillac Excess Policy is fully reinsured. *Id.*

**B. Letter of Credit**

The Workers' Compensation Policy required the Debtors to provide Old Republic a letter of credit as security for the Debtors' obligations under the Workers' Compensation Policy. *See* Workers' Compensation Policy - Program Agreement Endorsement, § 9.1.

The Debtors' obligations under the Workers' Compensation Policy consists primarily of insurance premiums ($511,128 per quarter, with three payments remaining), deductibles (which include Losses, Allocated Loss Adjustment Expenses) (on average $400,000 to $650,000 per month), Unallocated Loss Adjustment Expenses (*e.g.*, rent and salaries) (estimated as $702,000

annually, paid quarterly), and other obligations which are negligible in amount (the "WC Obligations"). Verified Complaint, ¶ 19; *see also* Workers' Compensation Policy, Program Agreement Endorsement, § 4(e) (defining "Obligations"). The Debtors have made one quarterly payment of the premium for the Workers' Compensation Policy. *Id.*

To satisfy this security requirement under the Workers' Compensation Policy, an irrevocable letter of credit was issued by CNB with Old Republic as the named beneficiary and Marillac as the account party (the "Letter of Credit," attached as Exhibit E to the Verified Complaint).

The Letter of Credit, in the amount of $34,087,296, fully secures the Debtors' WC Obligations to Old Republic under the Workers' Compensation Policy. Verified Complaint, ¶ 21. The amount of security needed, and therefor the amount of the Letter of Credit, is determined by Old Republic. The Workers' Compensation Policy provides that Old Republic may, "as it deems appropriate or necessary . . . review the security requirement. [Old Republic] shall have the sole right to determine the adequacy of the amount of security to be held." Workers' Compensation Policy, Program Agreement Endorsement, § 9.2. The current Letter of Credit amount is shown in a July 30, 2018 amendment of the Letter of Credit, attached as Exhibit F to the Verified Complaint.

The Letter of Credit has never been drawn on since it was initially issued on November 28, 2016 and has been renewed and reissued annually ever since. Verified Complaint, ¶ 22. The Letter of Credit provides that it shall automatically renew for a period of twelve (12) months, subject to an unlimited number of renewals, unless CNB notifies Old Republic of its intention not to renew. The Letter of Credit currently is set to expire on July 29, 2019.

The Debtors have paid all premiums due under the Workers' Compensation Policy and the Deductible Liability Protection Policy Agreement, and Marillac has timely made payments for all of the Debtors' deductible obligations under the Workers' Compensation Policy. Verified Complaint, ¶ 23. The Debtors believe that Marillac will continue to make such payments postpetition. *Id.*

If the Debtors' WC Obligation are not first paid by Marillac or the Debtors, Old Republic

may draw upon the Letter of Credit to reimburse Old Republic for payment of the Debtors' WC Obligations. *See* Workers' Compensation Policy - Program Agreement Endorsement, § 9.3. The Program Agreement Endorsement also provides that Old Republic may draw the Letter of Credit in full in the event that the Letter of Credit is not renewed and acceptable replacement security is not offered to Old Republic prior to its expiration on July 29, 2019. *See* Workers' Compensation Policy - Program Agreement Endorsement, § 9.3(b).

Old Republic may also draw the entire $34,087,296 Letter of Credit amount "in the event of the filing of a voluntary or involuntary petition in bankruptcy by [the Debtors], the insolvency of the [Debtors], the admission in writing by the [Debtors] of its inability to pay its debts as they become due, or a general assignment by the [Debtors] of its assets for the benefit of creditors." Workers' Compensation Policy - Program Agreement Endorsement, § 9.3(c).

## IV. RELIEF REQUESTED

By this Motion, the Debtors request that the Court grant temporary injunctive relief under Rule 65 of the Federal Rules of Civil Procedure (incorporated by Bankruptcy Rule 7065) and § 105 enjoining Old Republic from drawing down the Letter of Credit in full based upon the Debtors' insolvency or bankruptcy filing pursuant to Section 9.3(c) of the Program Agreement Endorsement (and enjoining CNB from executing on the collateral) until the confirmation of a plan or other resolution of the bankruptcy case.

The requested injunction is limited in scope and does not bar Old Republic from drawing the Letter of Credit to the extent the Debtors' WC Obligations are not paid by Marillac (with respect to deductibles owed) or by the Debtors (with respect to premiums and other charges owed) in the ordinary course or in the event the Letter of Credit is not renewed and replacement security is not furnished prior to its expiration. To be clear, the requested injunction will not enjoin Old Republic from drawing the Letter of Credit by the amount of the outstanding WC Obligations not paid by Marillac or Debtors in the ordinary course; nor will it prevent CNB from executing on its collateral to the extent of such draw.

## V. ARGUMENT

The Court has authority to enjoin Old Republic from drawing the entire Letter of Credit. Section 105 permits courts to issue "any order, process or judgment that is necessary or appropriate to carry out the provisions of [the Code]." 11 U.S.C. § 105(a). "Section 105(a) gives the bankruptcy courts the power to stay actions that are not subject to the 11 U.S.C. § 362(a) automatic stay but 'threaten the integrity of a bankrupt's estate.'" *In re Excel Innovations, Inc.*, 502 F.3d 1086, 1093 (9th Cir. 2007) (*quoting Canter v. Canter (In re Canter)*, 299 F.3d 1150, 1155 (9th Cir. 2002)). Bankruptcy courts, thus, may use their powers under § 105 "to assure the orderly conduct of the reorganization process." *Carabetta Enters., Inc. v. City of Ashbury Park (In re Carabetta Enters., Inc.)*, 162 B.R. 399, 406 (Bankr. D. Conn. 1993) (*quoting Erti v. Paine Webber Jackson & Curtis, Inc. (In re Baldwin United Corp. Litig.)*, 765 F.2d 343, 348 (2d Cir. 1985)).

Federal Rule 65 (incorporated by Bankruptcy Rule 7065) authorizes the issuance of ex parte temporary restraining orders without notice. To justify such relief, Rule 65(b) requires a demonstration of specific facts shown by affidavit or verified complaint that immediate or irreparable damage will result before the adverse party or its attorney can be heard in opposition. The applicant's attorney must submit a certificate to the court regarding the efforts, if any, that have been made to give notice to the adverse party or the reasons that such notice should not be required. *See Reno Air Racing Ass'n., Inc. v. McCord*, 452 F.3d 1126, 1131 (9th Cir. 2006) (*quoting Am. Can Co. v. Mansukhani*, 742 F.2d 314, 322 (7th Cir.1984)) ("In cases where notice could have been given to the adverse party, courts have recognized 'a very narrow band of cases in which ex parte orders are proper because notice to the defendant would render fruitless the further prosecution of the action.'"). As explained in the Declaration of Samuel R. Maizel, attached hereto as Exhibit A, issuance of an ex parte temporary restraining order without notice is necessary in this case because notice to Old Republic would render prosecution of the adversary proceeding fruitless; because, upon notice, Old Republic could, and likely would, attempt to defeat the Motion by drawing on the Letter of Credit in full (unless a restraining order is in place).

While the Ninth Circuit has held that bankruptcy courts do not have the power to

permanently enjoin actions against non-debtors, a bankruptcy court may, as the Debtors request in this case, enter a preliminary injunction which temporarily enjoins actions against a non-debtor until a plan is confirmed. *See In re Excel Innovations, Inc.*, 502 F.3d at 1095 ("Excel has already received the maximum injunctive relief - a stay until confirmation of a reorganization plan - that the bankruptcy court could grant") (*citing In re Am. Hardwoods*, Inc., 885 F.2d at 624-27). By entering a preliminary rather than permanent injunction, the court avoids, in effect, granting a non-debtor a discharge in violation of § 524(e). *See In re Am. Hardwoods*, Inc., 885 F.2d at 626 ("Section 524(e) . . . limits the court's equitable power under section 105 to order the discharge of the liabilities of nondebtors . . . .").

Courts issue such injunctions under either § 105(a) alone (*see, e.g. Wysko Inv. Co. v. Great Am. Bank*, 131 B.R. 146 (D. Ariz. 1991); *In re Delaware River Stevedores, Inc.*, 129 B.R. 38 (Bankr. E.D. Pa. 1991); *see generally Celotex Corp. v. Edwards*, 514 U.S. 300 (1995) (acknowledging an injunction based solely on § 105(a))) *or* by extending the automatic stay under § 362 based on "unusual circumstances" pursuant to § 105(a) (*see, e.g. In re Calpine Corp.*, 354 B.R. 45 (Bankr. S.D.N.Y. 2006)). This Court should enjoin Old Republic from drawing the entire Letter of Credit based upon the Debtors' bankruptcy filing under either approach.

### A. THE COURT SHOULD ENJOIN OLD REPUBLIC FROM DRAWING THE ENTIRE LETTER OF CREDIT.

Courts which rely solely on § 105(a) to issue an injunction against a non-debtor apply the "usual" preliminary injunction standards to determine whether an injunction is appropriate. *In re Excel Innovations, Inc.*, 502 F.3d at 1094. Under the traditional standard, a court may issue a preliminary injunction if it determines: (1) the moving party will probably prevail on the merits; (2) the moving party will suffer immediate and irreparable injury if the relief is denied; (3) the balance of potential harm favors the moving party; and, depending on the nature of the case, (4) the public interest favors granting relief. *Int'l Jensen, Inc. v. Metrosound U.S.A., Inc.*, 4 F.3d 819, 822 (9th Cir. 1993) (*citing Cassim v. Bowen*, 824 F.2d 791, 795 (9th Cir. 1987); *Zepeda et al. v. United States Immigration & Naturalization Serv.*, 753 F.2d 719, 727 (9th Cir. 1983)).

As to the merits prong of the preliminary injunction inquiry, "a debtor seeking to stay an

action against a non-debtor must show a reasonable likelihood of a successful reorganization." *In re Excel Innovations, Inc.*, 502 F.3d at 1095 (*citing Homestead Holdings, Inc. v. Broome & Wellington (In re PTI Holding Corp.)*, 346 B.R. 820, 826 (Bankr. D. Nev. 2006) (considering likelihood of success in reorganization under merits prong of preliminary injunction inquiry); *In re Eagle-Picher Indus., Inc.*, 963 F.2d 855, 859-60 (6th Cir. 1992) (same); *In re Monroe Well Serv., Inc.*, 67 B.R. 746, 751–52 (Bankr. E.D. Pa.1986) (same); *Otero Mills, Inc. v. Sec. Bank & Trust (In re Otero Mills, Inc.)*, 21 B.R. 777, 779 (Bankr. D. N.M. 1982) (same); *but see FTC v. First Alliance Mortgage Co. (In re First Alliance Mortgage Co.)*, 264 B.R. 634, 653 (C.D. Cal. 2001) (collecting conflicting cases)). A debtor may also show a reasonable likelihood of a successful plan of liquidation to satisfy the merits prong of the preliminary injunction inquiry. *See In re U.S. Fidelis, Inc.*, 481 B.R. 503, 520 (Bankr. E.D. Mo. 2012) ("[E]ven though this Case is a liquidation, the same principal applies as in a reorganization. A release of a non-debtor is appropriate only if, without it, there would be little likelihood of the accomplishing of the goal of the chapter 11: the confirmation of a successful plan of liquidation that benefits the creditors, including the unsecured creditors. Here, there is no chance of a plan of liquidation without the releases, and if there is no confirmed plan, the Case either will be converted to a chapter 7 case or dismissed.").

Although draws against a letter of credit are generally not subject to the automatic stay, bankruptcy courts, including in this Circuit, have issued injunctions solely under § 105(a) to enjoin draws on letter of credits. For example, in *Wysko Inv. Co. v. Great Am. Bank*, 131 B.R. 146 (D. Ariz. 1991), the Arizona district court affirmed the bankruptcy court's decision to enjoin draws against a letter of credit. The court reasoned that

> the Bankruptcy Court found that the injunction against the letter of credit was necessary for reorganization. In light of this evidence, this Court cannot say that the decision of the Bankruptcy Court in finding that the letter of credit was necessary for reorganization was "clearly erroneous." The fact that the injunction was necessary for reorganization is an unusual circumstance which justifies use of the Bankruptcy Court's Sec. 105 powers to enjoin a letter of credit.

*Wysko Inv. Co.*, 131 B.R. at 147.

Similarly, in *In re Delaware River Stevedores, Inc.*, 129 B.R. 38, 42 (Bankr. E.D. Pa. 1991), the court issued an injunction under § 105(a) to enjoin a draw on a letter of credit. In *Delaware River Stevedores*, the court was faced with the issue of whether it should enjoin the United States Department of Labor (the "DOL") from drawing on a letter of credit issued by the debtor's secured lender as security for the debtor's participation in the DOL's workmen's compensation program. *In re Delaware River Stevedores, Inc.*, 129 B.R. at 39. After the debtor failed to make required payments under the workmen's compensation program, the DOL attempted to draw on the letter of credit. *Id.* at 40. After weighing the equities of the case, the bankruptcy decided to temporarily enjoin the draw, conditioned on the debtor making an effort to continue making required payments under the workmen's compensation program. *Id.* at 41-44.

Similarly, in this case, the requested injunction is necessary for the Debtors to continue to operate and ultimately confirm a chapter 11 plan. Moreover, unlike the debtor in *Delaware River Stevedores*, all of the Debtors' WC Obligations, for which the Letter of Credit serves as security, have been met and will continue to be paid postpetition. The requested injunction is also narrow in scope and allows Old Republic to draw the Letter of Credit to the extent that it must be reimbursed because the Debtors' WC Obligations are not paid by the Debtors or Marillac or in the event that the Letter of Credit is not renewed and replacement security is not furnished upon expiration on July 29, 2019.

The traditional requirements to issue a preliminary injunction are also easily met here. If Old Republic is allowed to draw the entire Letter of Credit, the Debtors will be irreparably harmed because they would most likely lose their workers' compensation and professional and general liability insurance coverage, as well as coverage provided by the Marillac Excess Policy and would no longer be able to operate. If Debtors are unable to operate they will not be able to effect a going concern asset sale and confirm a plan, making the injunction necessary to the Debtors' reorganization efforts. On the other hand, Old Republic suffers no harm whatsoever from the limited injunction against drawing the Letter of Credit in full based upon the Debtor's bankruptcy filing. Likewise, CNB suffers no prejudice. Finally, successfully confirming a plan in this case is in the public interest.

**i. Allowing Old Republic to Draw the Entire Letter of Credit Will Irreparably Harm the Debtors.**

The irreparable harm requirement is met "where there is a showing that the action sought to be enjoined would embarrass, burden, delay or otherwise impede the reorganization proceedings or if the stay is necessary to preserve or protect the debtor's estate and reorganization prospects . . . ." *In re Carabetta Enters., Inc.*, 162 B.R. at 407 (*quoting Alert Holdings, Inc. v. Interstate Protective Servs., Inc. (In re Alert Holdings, Inc.)*, 148 B.R. 194, 200 (Bankr. S.D.N.Y. 1992)). If Old Republic draws down the Letter of Credit, the Debtors will lose their professional and general liability insurance coverage and the coverage provided by the Marillac Excess Policy, as well as the ability to maintain the Workers' Compensation Policy in the future. If this happens, the Debtors will no longer be able to operate their business and will suffer immediate and irreparable harm.

If Old Republic draws the entire $34,087,296 Letter of Credit amount based upon the Debtors' insolvency or bankruptcy filing, CNB will likely seek enforcement of its rights under the Letter of Credit and liquidate Marillac's assets, which Marillac provided as collateral. Because the vast majority of Marillac's assets secure the Letter of Credit, the liquidation of Marillac's assets would cause Marillac to become insolvent under Cayman Island law and lead to the cancellation of the Debtors' professional and general liability policy. Declaration of David Dinner, ¶¶ 30-31.[3]

Thus, the collapse of Marillac would cause the Debtors to lose their professional and general liability coverage with Marillac. Further, because Marillac is a Cayman Islands entity,

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[3] As set forth in the Declaration of David Dinner, the Debtors' Cayman Islands counsel:

> If the Company [Marillac] loses control of more than US$34 million in assets (the Old Republic letter of credit security) and Old Republic enforces its apparent right to treat the draw as cash collateral, the Company would be balance-sheet insolvent and the result would, even if after a period of provisional liquidation, likely be official liquidation and termination of contractual relationships, simply because of the funding gap that will result from the loss of control of the assets without a corresponding reduction in liabilities.
>
> While the commencement of official liquidation does not automatically cancel any policies that the Company issued (assuming the contracts in question do not have clauses cancelling the same on an insolvency event), in practice the liquidator will generally bring those policies to an end and any claims for breach of contract will go into the liquidation. . . .

Declaration of David Dinner, ¶¶ 30-31.

there would be no guarantee association protection for claimants and individuals covered by the Marillac professional and general liability policy. *See* Declaration of David Dinner, ¶ 7. It also is unlikely that another insurer will issue a replacement professional and general liability policy to the Debtors given their financial situation, except (if at all) with rates of premium that the Debtors could not afford. Verified Complaint, ¶ 28. Likewise, the collapse of Marillac would likely cause the Marillac Excess Policy either to be cancelled or otherwise unavailable as a source of insurance cover. Declaration of David Dinner, ¶ 31. The Marillac Excess Policy is fully reinsured. Verified Complaint, ¶ 16. However, if Marillac is unable to effect exhaustion of its primary payment because it is unable to pay covered losses, the excess layer, and hence reinsurance, may not be triggered (even assuming the Marillac Excess Policy is not cancelled). *See Rapid-American Corp. v. Travelers Casualty and Surety Co.*, 2016 WL 3292355, at *1 (Bankr. S.D.N.Y. 2016) (court enforces policy language requiring debtor's underlying insurance limits to be exhausted by actual payment before the insurers' excess liability coverage will attach).

The collapse of Marillac also would be detrimental to the Debtors' workers' compensation program. Without the Deductible Liability Protection Policy in place, it is unlikely that Old Republic would continue or renew the Workers' Compensation Policy. Verified Complaint, ¶ 29. The Debtors would have an extremely difficult time replacing the Workers' Compensation Policy. *Id.* It is unlikely that the Debtors could obtain a new large deductible workers' compensation policy from another insurance carrier. *Id.* First, any carrier would likely refuse to issue such policy outright because of the Debtors' financial condition, and second, even if a carrier would contemplate issuing such a policy, the collateral requirement would be unaffordable and, as a practical matter, beyond the Debtors' available unencumbered assets. *Id.* Likewise, even if the Debtors could find a carrier to issue a first-dollar workers' compensation policy, the premium for such a policy would be cost prohibitive. *Id.*

As a practical and legal matter, continuation of the Debtors' professional and general liability insurance coverage, excess coverage and workers' compensation insurance coverage is essential to the operation and preservation of the value of the Debtors' business (a healthcare system), properties and assets. *See, e.g.* Cal. Lab. Code § 3700 (requiring workers' compensation

coverage). Accordingly, if the Court does not enjoin Old Republic from drawing the entire Letter of Credit and the Debtors are, consequently, unable to maintain their current insurance coverage, the Debtors will be unable to operate.

If the Debtors cease operations, their business will lose its going concern value and, thus, the value of the Debtors' assets will be severely impaired. A Chapter 11 plan, which pays administrative expenses and priority claims in full and provides a meaningful distribution to unsecured creditors, is only viable if the Debtors' assets are sold as a going concern. Accordingly, the Debtors will suffer immediate and irreparable harm without the requested injunction permitting the Debtors to continue operations.

**ii. Success On The Merits Is Established Because Debtors Are Likely To Confirm a Plan.**

As explained, the Debtors contemplate selling some or all of their assets as a going concern to a third party. The Debtors anticipate selling some or all of their assets as a going concern prior to July 29, 2019, the date the Letter of Credit expires. Verified Complaint, ¶ 22. The Debtors have made great strides toward selling assets and ultimately confirming a plan. The Debtors have engaged Cain Brothers, a division of KeyBanc Capital Markets ("Cain"), to market and sell its assets. Adcock Declaration, ¶ 128. Cain contacted over 110 strategic and financial buyers to solicit their interest in exploring a transaction regarding the Debtors and has advanced significantly towards achieving sales. *Id.*, ¶ 129. As a result of its ongoing and broad marketing process, Cain has received 11 Indications of Interest to date, and expects to receive additional proposals on or near the end of August. *Id.*, ¶ 130. Shortly after the Petition Date, the Debtors, in consultation with Cain and its other advisors, anticipate selecting an offer from one or more stalking horse bidder(s) to acquire some or substantially all of the Debtors' assets through a sale under § 363 of the Bankruptcy Code. *Id.* However, as explained, if the Court does not enjoin Old Republic from drawing the entire Letter of Credit, the Debtors will be unable to continue to operate. This will cause the Debtors to lose the going concern value of its assets, making a plan not viable.

**iii. The Balance Of Equities Favors Issuance Of An Injunction.**

The balance of equities decisively favors a stay. The Debtors will suffer immediate and irreparable harm and the inability to operate or confirm a plan if Old Republic is not enjoined from drawing on the Letter of Credit. On the other hand, Old Republic will suffer no harm whatsoever if it is enjoined from drawing down the Letter of Credit upon on the Debtors' insolvency or bankruptcy filing. The requested injunction is limited in scope and duration. It does not bar Old Republic from drawing the Letter of Credit to the extent the Debtors' WC Obligations are not paid by Marillac (with respect to deductibles owed) or by the Debtors (with respect to premiums and other charges owed) in the ordinary course. In the event Marillac or the Debtors do not make a payment to cover the remaining WC Obligations, the requested injunction will not enjoin Old Republic from drawing the Letter of Credit by the amount of the outstanding WC Obligations. Old Republic is also not enjoined from drawing the Letter of Credit in full in the event that the Letter of Credit expires without replacement security being provided. Nor will the requested injunction enjoin CNB from executing on collateral *pro tanto*, in the event of such draw. There is thus no prejudice to CNB. The injunction will expire upon plan confirmation or other resolution of the case.

**iv. An Injunction Serves the Public Interest.**

To the extent the public interest is involved, the public interest favors the Debtors who sought protection of the Bankruptcy Court to facilitate a chapter 11 plan for the benefit of creditors. The public interest also favors operation of a vital safety net health care system which includes six acute care hospitals, medical clinics and other healthcare facilities servicing over 300,000 patients in California per year, with approximately 1,680 inpatient beds, six active emergency rooms, a trauma center, over fifteen medical office buildings, and a host of medical specialties, including tertiary and quaternary care. *See* Verified Complaint, ¶¶ 2-3, 36.

Courts have recognized that the "public interest" in some categories of cases is actually the interests of those served by the litigating parties. *See Tri-State Generation & Transmission Assoc., Inc. v. Shoshone River Power, Inc.*, 805 F.2d 351, 356 (10th Cir. 1986) ("The 'public interest' in a public utility case is actually the interest of purchasers of electric power"). The

public interest in a hospital case includes the interests of the patients and the health plans and payors who are responsible for ensuring an adequate network of providers for their members. The public interest here is harmed if the Debtors are prevented from providing medical services to its patients that it had been providing prepetition. The Court, thus, does not favor permitting Old Republic to draw the Letter of Credit in an amount not needed to keep it fully secured, to the prejudice of all other creditors and health care needs of the public and the Debtors' patients.

### B. UNUSUAL CIRCUMSTANCES INDEPENDENTLY WARRANT ENJOINING OLD REPUBLIC FROM DRAWING THE ENTIRE LETTER OF CREDIT.

Some courts issuing an injunction enjoining rights of nondebtors under 105(a) view the injunction as an extension of the automatic stay under section 362. These courts extend the automatic stay to situations involving nondebtors in certain "unusual circumstances." If unusual circumstances exist, the courts then consider the "traditional elements" for an injunction.

"Unusual circumstances" exist where an action against the non-debtor third-party will have an adverse impact on the debtor's ability to accomplish reorganization. *McCartney v. Integra Nat'l Bank North*, 106 F.3d 506, 510 (3d Cir. 1997) (*citing In re Lazarus Burman Assocs.*, 161 B.R. 891, 899–900 (Bankr. E.D.N.Y. 1993) (enjoining guaranty actions against nondebtor principals of debtor partnerships because principals were the only persons who could effectively formulate, fund, and carry out debtors' plans of reorganization); *In re Steven P. Nelson*, 140 B.R. 814, 816–17 (Bankr. M.D. Fla. 1992) (enjoining actions against nondebtor guarantor of debtor corporation's obligations where guarantor was president of debtor and president's services, expertise and attention were essential to the reorganization of the debtor)).[4]

For example, in *In re Calpine Corp.*, 354 B.R. 45 (Bankr. S.D.N.Y. 2006), *aff'd*, 365 B.R. 401 (S.D.N.Y. 2007), the court extended the automatic stay to enjoin litigation against the

[4] "In the Ninth Circuit, the vitality of the 'unusual circumstances' exception is not clear." *In re Chugach Forest Product, Inc.*, 23 F.3d 241, 247 (9th Cir. 1994). However, at least two bankruptcy courts in the Ninth Circuit have applied the "unusual circumstances" test to extend the stay to nondebtors. *See Circle K Corp. v. Marks (In re Circle K Corp.)*, 121 B.R. 257, 261 (Bankr. D. Ariz. 1990) (staying litigation against officers of the debtor where officers could seek reimbursement from debtor for litigation fees); *Maxicare Health Plans, Inc. v. Centinela Mammoth Hospital (In re Family Health Servs.)*, 105 B.R. 937, 942 (Bankr. C.D. Cal. 1989) (temporarily staying enforcement of state court judgment against nondebtor members of debtor health maintenance organizations until a plan was confirmed).

debtor's surety. In that case, Judge Lifland exercised his powers under § 105(a) to enter "necessary or appropriate" orders in order to extend the stay under § 362(a) to preliminarily enjoin litigation against the debtor's surety "to prevent creditors from frustrating an other-wise viable reorganization effort by pursing actions against [the surety]." *In re Calpine Corp.*, 354 B.R. at 49-50. The third party's claims against the surety were entirely contingent on the debtor's liability to this third party, and allowing litigation to proceed against the surety would result in resolution of issues regarding the debtor's liability and defenses that might have collateral estoppel, stare decisis, or other prejudicial effect on the debtor. *Id.* at 50. The court also reasoned that the surety would have an indemnity claim against the debtor for any judgment entered against it, and allowing this other litigation to proceed would distract key personnel from the debtor's reorganization efforts. *Id.*

Here, if Old Republic draws the entire Letter of Credit, it will have an adverse impact on the Debtors' ability to operate, and hence their ability to sell assets as a going concern, and then completion of the Debtors' Chapter 11 plan. As explained, a draw on the Letter of Credit would cause a collapse of Marillac which would then ultimately cause the Debtors to most likely lose their insurance coverage and, thus, the ability to operate their business. If the Debtors cannot operate their business, they will lose the going concern value of their assets. A plan, which pays sizeable administrative expenses and priority claims in full, provides a meaningful distribution to unsecured creditors and continues operation of the Debtors' hospitals, medical clinics and facilities for the public, is only viable if some or all of the Debtors' assets are sold as a going concern. Thus, an extension of the automatic stay to enjoin Old Republic from drawing on the Letter of Credit is necessary to further the Debtors' effort to confirm their plan. Further, because, as discussed *supra*, the traditional elements for a preliminary injunction have been met in this case, it is appropriate to enjoin Old Republic from drawing on the Letter of Credit upon the Debtors' insolvency or bankruptcy filing.

## CONCLUSION

For the reasons set forth above, the Debtors respectfully request that this Court enjoin Old Republic from drawing (or CNB from paying) the Letter of Credit in full based upon the Debtors'

insolvency or bankruptcy filing until the resolution of the bankruptcy case, without prejudice to Old Republic's ability to draw (and CNB's ability to pay and execute on collateral) on the Letter of Credit to the extent deductibles or other WC Obligations are not paid by Marillac or the Debtors in the ordinary course or in the event the Letter of Credit expires on July 29, 2019 without any replacement security offered to Old Republic.

Dated: August 31, 2018

Respectfully submitted,

DENTONS US LLP

By */s/ Samuel R. Maizel*
Samuel R. Maizel
Tania M. Moyron

Attorneys for the Debtors

# EXHIBIT A

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Proposed Attorneys for the Chapter 11 Debtors and
Debtors In Possession

**UNITED STATES BANKRUPTCY COURT**
**CENTRAL DISTRICT OF CALIFORNIA - LOS ANGELES DIVISION**

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|---|---|
| In re<br><br>VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*,<br><br>Debtors and Debtors In Possession. | Lead Case No. 18-_____<br><br>(Proposed To Be) jointly administered with:<br>Case No. 18- Case No. 18-<br>Case No. 18- Case No. 18-<br>Case No. 18- Case No. 18-<br>Case No. 18- Case No. 18-<br>Case No. 18- Case No. 18-<br>Case No. 18- Case No. 18-<br>Case No. 18- Case No. 18-<br>Case No. 18- Case No. 18-<br>Case No. 18- Case No. 18-<br><br>Chapter 11 Cases |
| ☒ Affects All Debtors<br>☐ Affects O'Connor Hospital<br>☐ Affects Saint Louise Regional Hospital<br>☐ Affects St. Francis Medical Center<br>☐ Affects St. Vincent Medical Center<br>☐ Affects Seton Medical Center<br>☐ Affects O'Connor Hospital Foundation<br>☐ Affects Saint Louise Regional Hospital Foundation<br>☐ Affects St. Francis Medical Center of Lynwood Medical Foundation<br>☐ Affects St. Vincent Foundation<br>☐ Affects St. Vincent Dialysis Center, Inc.<br>☐ Affects Seton Medical Center Foundation<br>☐ Affects Verity Business Services<br>☐ Affects Verity Medical Foundation<br>☐ Affects Verity Holdings, LLC<br>☐ Affects DePaul Ventures, LLC<br>☐ Affects DePaul Ventures - San Jose Dialysis, LLC<br>Debtors and Debtors In Possession. | Adv. Proc. No. _____ |
| VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*,<br>Debtors and Debtors In Possession<br>Plaintiff,<br><br>v.<br><br>OLD REPUBLIC INSURANCE COMPANY and CITY NATIONAL BANK,<br>Defendants. | **DECLARATION OF SAMUEL R. MAIZEL** |

I, Samuel R. Maizel, hereby state and declare as follows:

1. I am a Partner at Dentons US LLP, located at 601 South Figueroa Street, Suite 2500, Los Angeles, California.

2. This Declaration is filed in accordance with Rule 65(b) of the Federal Rules of Civil Procedure (incorporated by Rule 7065 of the Bankruptcy Rules of Civil Procedure).

3. The contents of this Declaration are within my knowledge and are true.

4. The *Ex Parte Emergency Motion for Temporary Restraining Order Without Notice and Preliminary Injunction Enjoining Defendant from Making Certain Draws on a Letter of Credit* (the "Motion") should be heard on an *ex parte* basis without notice pursuant to Rule 65(b) of the Federal Rules of Civil Procedure.

5. The Motion should be heard without notice to the above-captioned Defendants, Old Republic Insurance Company ("Old Republic") and City National Bank, because, if notice is provided to the Defendants, Old Republic could attempt to defeat the Motion by drawing on the letter of credit issued in its favor (the "Letter of Credit") in full (unless a restraining order is in place).

6. The Letter of Credit is a clean letter of credit, drawable on sight draft to be promptly honored by the issuer, CNB. The Letter of Credit does not set forth any conditions to the draw on the Letter of Credit other than the presentation of the sight draft. Therefore, if notice is provided to Old Republic of the Motion for temporary restraining order, Old Republic could attempt to draw the Letter of Credit in full and defeat the Motion before it is heard.

7. If Old Republic draws on the Letter of Credit in full, the above-captioned Debtors will be immediately and irreparably harmed because the Debtors would no longer be able to maintain their insurance coverage and, thus, could no longer operate. Ceasing operations would prevent the Debtors from selling some or all of their assets as a going concern and, ultimately, from

confirming a Chapter 11 plan.

8. It is, thus, proper to hear the Motion on an *ex parte* basis without notice to Defendants because, if notice is provided, prosecution of the above-captioned adversary proceeding could be rendered fruitless.

I declare under penalty of perjury that the foregoing is true and correct.

Date: AUGUST 31, 2018

SRMaizel

Samuel R. Maizel

# EXHIBIT B

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Proposed Attorneys for the Chapter 11 Debtors and
Debtors In Possession

**UNITED STATES BANKRUPTCY COURT**
**CENTRAL DISTRICT OF CALIFORNIA - LOS ANGELES DIVISION**

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|---|---|
| In re<br><br>VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*,<br><br>Debtors and Debtors In Possession.<br><br>☒ Affects All Debtors<br>☐ Affects O'Connor Hospital<br>☐ Affects Saint Louise Regional Hospital<br>☐ Affects St. Francis Medical Center<br>☐ Affects St. Vincent Medical Center<br>☐ Affects Seton Medical Center<br>☐ Affects O'Connor Hospital Foundation<br>☐ Affects Saint Louise Regional Hospital Foundation<br>☐ Affects St. Francis Medical Center of Lynwood Medical Foundation<br>☐ Affects St. Vincent Foundation<br>☐ Affects St. Vincent Dialysis Center, Inc.<br>☐ Affects Seton Medical Center Foundation<br>☐ Affects Verity Business Services<br>☐ Affects Verity Medical Foundation<br>☐ Affects Verity Holdings, LLC<br>☐ Affects DePaul Ventures, LLC<br>☐ Affects DePaul Ventures - San Jose Dialysis, LLC<br>Debtors and Debtors In Possession. | Lead Case No. 18-_____<br><br>(Proposed To Be) jointly administered with:<br>Case No. 18- Case No. 18-<br>Case No. 18- Case No. 18-<br>Case No. 18- Case No. 18-<br>Case No. 18- Case No. 18-<br>Case No. 18- Case No. 18-<br>Case No. 18- Case No. 18-<br>Case No. 18- Case No. 18-<br>Case No. 18- Case No. 18-<br>Case No. 18- Case No. 18-<br><br>Chapter 11 Cases<br><br>Adv. Proc. No.<br><br>**DECLARATION OF DAVID DINNER** |
| VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*,<br>Debtors and Debtors In Possession<br>Plaintiff,<br><br>v.<br><br>OLD REPUBLIC INSURANCE COMPANY and CITY NATIONAL BANK,<br>Defendants. | |

I, DAVID ROGER DINNER, Managing Partner of Dinner Martin Attorneys, 3rd Floor, One Capital Place, Shedden Road, George Town, Grand Cayman, Cayman Islands, MAKE OATH and SAY as follows:

1. The contents of this Declaration are within my knowledge and are true. Where matters deposed to herein are not within my direct knowledge, I set out the source of my knowledge and verily believe such matters to be true.

2. There is now produced and shown to me marked Exhibit DD-1 a bundle of true copies of various documents to which I shall refer in the course of this Declaration. Save where the contrary is stated, references to Pages in this Declaration are to Pages in Exhibits DD-1.

3. I am asked to provide advice on the law of the Cayman Islands in relation to the position of a captive insurance company named Marillac Insurance Company, Ltd (the "Company"). Between pages 1 and 2 of DD-1 appears a copy of my CV, upon which I rely as the qualification of my foundation to give expert evidence upon the matters set out below.

4. The Company was incorporated under the laws of the Cayman Islands on 9 December 2003, as an "Exempted Company". Exempted companies are not permitted to trade in the local economy and carry out their business almost exclusively outside the jurisdiction of the Cayman Islands. I am informed and verily believe that the Company was incorporated in order to provide insurance services to Verity Health System ("Verity"), which I understand to be a non-profit healthcare system operating in California, USA. Verity is the sole owner of the Company.

5. The Company received a license from the Cayman Islands Monetary Authority ("CIMA") to operate as a Class B(i) insurance company, under the Insurance Law (2003 Revision) of the Cayman Islands, on 15 December 2003 (page 3, DD-1).

6. On 1 November 2012, The Insurance Law, 2010 (the '2010 Revision') became effective. Under such law, Class B licenses were changed from 'restricted' and 'unrestricted', as they had been described in previous revisions of the law, into three separate classes '(i)', '(ii)' and '(iii)'. Insurers writing at least 95% of net premiums with their related business (in this case Verity) fell into Class B(i). The Company was granted a Class B(i) license, effective 2 April 2015.

7. The Cayman Islands do not have guarantee association protection for the Company or its insureds.

Operational Requirements

8. By virtue of the 2010 Revision (pages 4 to 39, DD-1) and the Insurance (Capital and Solvency) (Classes B, C and D Insurers) Regulations (2018 Revision) ("the Regulations") (pages 40 to 55, DD-1) made under the 2010 Revision, the Company is subject to a number of duties and requirements. The following requirements are material to the matters at hand.

9. Section 8(2) of the 2010 Revision (page 17, DD-1) requires that the Company shall:

i. Maintain a margin of solvency in accordance with the prescribed solvency requirements (s8(2)(a)); and

ii. Maintain capital in accordance with the prescribed capital requirements ("PCR") (s8(2)(c)).

10. The 2010 Revision defines "margin of solvency" as the excess of the value of prescribed assets over prescribed liabilities. The 2018 Regulations defines "prescribed capital requirement" as the total risk-based capital that an insurer must maintain in order to operate in a safe and sound manner as set out in Schedule 1. By Regulation 4 (b) of the 2018 Regulations (page 48, DD-1), liabilities are "*prescribed as liabilities, including minority interest, calculated and valued on the basis required by the accounting standards in accordance with which the insurer's financial statements are prepared and shall include all liabilities arising out of its contracts of insurance*."

11. Schedule 1 of the 2018 Regulations (pages 50, DD-1) provides that the Company, as a Class B(i) insurer is subject to the following minimum capital and prescribed capital requirements: general business US$100,000, long-term business US$200,000 and composite US$300,000.

12. Section 9(1) of the 2010 Revision (pages (18 to 19, DD-1) requires that the Company shall file an annual return within six months of the end of its financial year including: audited financial statements (s9(1)(a)), actuarial valuation of its assets and liabilities, including loss and loss expense provisions (s9(1)(b)), a certificate of solvency (s9(1)(c)) and written confirmation

that the information set out in the application for the initial license that the Company received remains correct (s9(1)(d)).

13. Regulation 9(3) of the 2018 Regulations (page 49, DD-1) provides that where the capital of a licensee falls below the minimum capital requirement, CIMA may consider regulatory actions available. Regulation 9(2) of the 2018 Regulations provides that where capital falls below the prescribed capital requirement but is greater than the minimum capital requirement ("MCR"), the licensee shall meet with CIMA and present a remedial action plan. Schedule 1 indicates that the MCR and the PCR are the equal for the Class B(i) licensees.

14. Accordingly, while the Company need not make declarations as to its margin of solvency, MCR or PCR compliance save by annual return, there is support for the proposition that there is a reporting requirement, even if only implied, on the Company if it falls out of compliance with MCR / PCR requirements.

15. Furthermore, by virtue of section 21(2) of the 2010 Revision (pages 26 to 27, DD-1), the insurance manager, a role here I understand is undertaken locally by Aon, must report the Company to CIMA if, amongst other things, s/he:

i. Has concerns about the fitness or probity of the insurer; or

ii. Obtains information or suspects that the insurer is unable or likely to become unable to meets its obligations as they fall due.

The Business of the Company

16. The Company provides three broad streams of insurance to Verity:

i. Workers' compensation deductible coverage. Verity's exposure under workers' compensation is covered by Old Republic Insurance Company ("Old Republic"), but that policy is subject to a US$500,000 deductible on each occurrence. The Company covers that deductible layer for Verity;

ii. Hospital professional and general liability coverage; and

iii. Umbrella excess of coverage to Verity to cover liabilities exceeding the cover provided by other policies. The limit of that coverage is US$80,000,000. However, this liability is fully reinsured.

17. The Old Republic workers' compensation policy is backed by a letter of credit ("LOC") issued by City National Bank and made in favor of Old Republic. On 28 November 2016, the LOC was in the amount of US$32,121,000.00 and was secured by the assets of the Company (pages 56 to 58, DD-1). On 30 July 2018, the LOC was amended to increase the limit by US$1,500,000.00 to a total of US$34,087,296.00 (pages 59 to 61, DD-1), fully secured by assets of the Company of equivalent value.

18. There is a further LOC in favor of Preferred Professional Insurance Company in the amount of US$1,478,000.00, again issued by City National Bank and secured on the assets of the Company.

19. In total, US$35,567,296.00 of the assets of the Company are encumbered in security of LOCs.

Verity and Old Republic

20. I am informed and verily believe that Verity is actively considering restructuring options and that one of the options under consideration is chapter 11 bankruptcy. Under the relevant agreement between Old Republic and Verity the Program Agreement Endorsement (pages 115 to 123, DD-1), Old Republic has the right to "fund an account with [Old Republic] for the full amount secured in the event of the filing of a voluntary or involuntary petition in bankruptcy by [Verity], the insolvency of [Verity], the admission in writing by the [Verity] of its inability to pay its debts as they become due, or a general assignment by - [Verity] of its assets for the benefit of creditors." Program Agreement Endorsement, section 9.3(c), page 119, DD-1. In the event that Old Republic draws the LOC in full and "funds an account," "[Old Republic] will be free to hold the proceeds thereof, without liability for interest thereon, until [Verity] has fully remedied the circumstances for which the draw was made, whereupon [Old Republic] shall promptly return the proceeds held by it, less portions allocable to amounts due it under [reimbursements for payments made by Old Republic]. . . . [Old Republic] shall have no obligation or liability to remit to [Verity] any investment income thereupon." Program Agreement Endorsement, section 9.3. I am further informed and do believe that Old Republic may draw on its LOC upon learning of Verity's financial position.

21. In connection with the arrangement with Old Republic, it is crucial to note that there is no direct contractual relationship between the Company and Old Republic in relation to Verity's liability. Even if Old Republic draws down on the LOC, resulting in the LOC issuer seizing the assets of the Company under the security, this would not have the effect of removing Verity's deductible liability under claims made against it. The Company would remain under a contractual obligation to Verity to meet any sum due from Verity up to the deductible limit, irrespective of any assets seized by Old Republic. Accordingly, there is no contractual mechanism by which the draw down on the LOC would automatically or would even likely alleviate the Company's liability under the deductible protection policy.

The Condition of the Company

22. I have been provided with an unaudited balance sheet for the Company, to 30 June 2018 (between pages 138 and 148 of DD-1). That balance sheet shows assets of US$52,171,540 and liabilities of US$46,820,289. For reasons that I shall come on to in due course, there is no need to analyze the various classes of assets and liabilities that appear on the balance sheet.

23. If Old Republic were to call upon its LOC, the Company would have to surrender or would otherwise lose control of assets in the amount of US$34,087,296.00. The remaining assets of the Company (some US$18,084,244) would fall far short of its liabilities as calculated by Aon, the Company's captive insurance manager, to 30 June 2018, rendering the Company balance sheet insolvent. If Old Republic holds US$34,087,296.00 drawn in a cash collateral account and continues to bill the Company for its obligations under the Deductible Liability Protection Policy, such call upon the letter of credit would do nothing to reduce the liabilities of the Company, as explained above.

24. As set out above, if the LOC is called and the result of that call is as discussed above, the Company may and the captive insurance manager certainly would have an obligation under Cayman Islands law to report to CIMA that the Company may not be able to meet its liabilities as they fall due and/or that the MCR requirements have been breached.

Results of Reporting to CIMA

25. The current legislation does not mandate any particular action by CIMA save that

CIMA may consider regulatory action. Accordingly, CIMA would have a range of options open to it when considering how to respond to the Company's position. CIMA may consider the simple appointment of a receiver to administer the business of the Company independently for a period to assess its viability. CIMA may exercise its power to take over the running of the Company completely, as regulator, or it may seek to put in place a provision liquidator or move directly to official liquidation.

26. Given the ongoing nature of the business that the Company insures, it is most likely that CIMA would seek either to appoint a receiver over the Company to assess its position before deciding what action should be taken or to seek to appoint a provisional liquidator over the Company. It also is likely that CIMA would impose a freeze on the operations of the Company during the period of any receivership.

27. In provisional liquidation, the directors of the Company may be allowed to continue to control the Company, subject to the supervision of the provisional liquidator, who is in turn under the supervision of the Court. The benefit of the appointment of a provisional liquidator is that the Company is protected from actions being continued or commenced against it, without leave of the Court. There is no protection from enforcement of security by secured creditors, however.

28. In provisional liquidation, the Company may continue to trade and there is no automatic termination of its contractual relationships (*i.e.*, the policies it issued to Verity). Thus, it is likely that the policies will continue in place for a provisional period, although the provisional liquidator may choose to terminate them once it seems likely that formal liquidation will follow. Although formal claims may not be continued or presented through the Courts without leave, that does not prevent the provisional liquidator permitting an insurer, such as the Company, from making payments under its contracts with his or her consent. Thus, there is a reasonable prospect (although it cannot be guaranteed) that existing claims would continue to be paid during the currency of any provisional liquidation, at the discretion of the provisional liquidator. The difficulty is that the decision as to whether or not to do so would rest with the provisional liquidator in their professional judgment, under the supervision of the Court.

29. It is fair to observe the CIMA interventions tend to towards the more aggressive end

of the regulatory spectrum. Thus, while receivership may be open to CIMA, it is more likely that CIMA will seek to appoint a provisional liquidator or seek to take over the running of the Company itself. In my view, provisional liquidation is the most likely result of CIMA intervention, in that it will place an independent professional in charge of the business of the Company, under the supervision of the Court.

30. If the Company loses control of more than US$34 million in assets (the Old Republic LOC security) and Old Republic enforces its apparent right to treat the draw as cash collateral, the Company would be balance-sheet insolvent and the result would, even if after a period of provisional liquidation, likely be official liquidation and termination of contractual relationships, simply because of the funding gap that will result from the loss of control of the assets without a corresponding reduction in liabilities.

31. While the commencement of official liquidation does not automatically cancel any policies that the Company issued (assuming the contracts in question do not have clauses cancelling the same on an insolvency event), in practice the liquidator will generally bring those policies to an end and any claims for breach of contract will go into the liquidation. Consequently, the overall result of the draw down of the LOC would likely be the eventual cancellation of the various policies under which the Company is liable to cover Verity's liabilities, leaving Verity suddenly exposed. While Verity would have a remedy in the course of the insolvency proceedings concerning the Company, those proceedings would take time to come to fruition and it would likely be the case that any recoveries made would be on a less than 100% basis. Indeed, it is impossible at this stage to predict whether any substantial recoveries would be made.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Date: AUG 28/18

David Roger Dinner

# EXHIBIT HH-1

# David Dinner

*Called to the Bar and Qualified to Practice Law in Ontario, Canada (Non-practising) and the Cayman Islands – Admitted as a Solicitor in England and Wales (Non-practising)*

## EDUCATION

**2006 - Master of Laws (LL.M.),** Osgoode Hall, York University
Completed masters program specializing in Business Law (2006)

**2003 - Chartered Insurance Professional (CIP),** Insurance Institute of Canada
Professional industry designation consisting of twelve courses specific to the business of insurance (2003)

**2002 - Bachelor of Laws (LL.B.),** University of Windsor

**1999 - Bachelor of Arts (Magna Cum Laude),** University of Ottawa

**1998 - Bachelor of Arts (Cum Laude),** University of Ottawa

## PROFESSIONAL EXPERIENCE

**Founding and Managing Partner** at **DINNER MARTIN ATTORNEYS** (becoming Dentons in July 2018) (2013 – *present*)

- Involved in all aspects of corporate law including establishment and licensing, debt and equity financing and general corporate advice.
- Involved in all aspects of commercial litigation with specific focus on insolvency, trust and estate disputes as well as medical malpractice claims.
- Responsible for day-to-day administration of the firm and supervision of all attorneys and employees.

**Senior Associate** at **BODDEN & BODDEN ATTORNEYS-AT-LAW** *(2008 – 2013)*

- Involved in all aspects of Commercial litigation with specific focus on insolvency, trust and estate disputes as well as medical malpractice claims.
- Involved in all aspects of general local practice, including conveyancing, immigration, corporate commercial matters, wills and estates.

**Associate** at **ZAREK, TAYLOR, GROSSMAN, HANRAHAN** *(2003 – 2008)*

- Involved in all aspects of insurance defence litigation with specific focus on road traffic accident claims.

## PROFESSIONAL ADMISSIONS

**Law Society of Upper Canada (Ontario)**

Barrister and Solicitor (2003) – Non-practising

**Grand Court of the Cayman Islands**

Attorney-at-Law (2008)

Notary Public (2011)

**Solicitor Regulation Authority, England and Wales**

Solicitor (2011) – Non-practising

**Extra-Curricular Activities**

**Chairman, Cayman Heart Fund** *(2011 to present)*

**Treasurer, Cayman Flying Club** *(2012-2014)*

**REPRESENTATIVE TRANSACTIONS – LITIGATION AND RESTRUCTURING**

- Counsel to American Professional Assurance Ltd. (In Voluntary Liquidation) and APAL (SPC) (In Voluntary Liquidation), both large medical malpractice captive insurers with written premium in excess of US$100 million
- Counsel to Awal Bank BSC (In Official Liquidation), a Bahrain-based bank connected to the US$9.2 billion insolvency of Ahmad Hamad Al-Gosaibi and Brothers
- Counsel to members of the liquidation committee of the Cayman subsidiaries of the Parmalat SpA bankruptcy
- Counsel to the liquidator and the Clerk of the Grand Court in the bankruptcies of Mendes and Otu in the Cayman Islands
- Counsel to numerous creditors in multiple insolvencies
- Counsel to local liquidators and companies pre-insolvency and restructuring

Licence Number: 2468

Cayman Islands

THE INSURANCE LAW, 2010

(Law 32 of 2010)

THE INSURANCE (APPLICATION AND FEES) REGULATIONS, 2012

LICENCE

## Marilac Insurance Company, Ltd.

is hereby licensed under THE INSURANCE LAW, 2010 , to carry on business within the Cayman Islands as a Class B(i) Insurer under section 4 (3) of the Law, subject to the provisions of the said Law and, in particular, to the condition that the Licensee shall forthwith notify the Cayman Islands Monetary Authority of any change in the information supplied in the application for this Licence.

*Original certificate issued as a Class B Insurer with effect from the 15th Day of December, 2003*

Given this 2nd Day of April, 2015
at George Town on the Island of Grand Cayman.

Managing Director
Cayman Islands Monetary Authority

CAYMAN ISLANDS




Supplement No. 1 published with Gazette No. 21
dated 11 October, 2010.

**THE INSURANCE LAW, 2010**

**(LAW 32 OF 2010)**

**THE INSURANCE LAW, 2010**

**ARRANGEMENT OF SECTIONS**

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2. Interpretation

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36. Use of the word "insurance", etc.
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SCHEDULE - Savings, transitional, consequential provisions

CAYMAN ISLANDS

Law 32 of 2010.

I Assent

Duncan Taylor

Governor.

Date: 24th September, 2010

**A LAW TO REVISE THE REGULATION OF THE INSURANCE INDUSTRY IN THE CAYMAN ISLANDS; AND FOR INCIDENTAL AND CONNECTED PURPOSES**

ENACTED by the Legislature of the Cayman Islands.

## PART 1 - PRELIMINARY

Short title and commencement

1. (1) This Law may be cited as the Insurance Law, 2010.

(2) This Law shall come into force on such date as may be appointed by Order made by the Governor in Cabinet.

Interpretation

2. (1) In this Law -

"actuary" means a person who has qualified as an actuary by examination of the Institute of Actuaries in England or the Faculty of Actuaries in Scotland or the Society of Actuaries in the United States of America or Canada, and who is a current member in good standing of one of the above professional associations or a person in good standing with some other actuarial qualification who is recognised by the Authority as such for the purpose of this Law;

"auditor" means a person who has qualified as an accountant by examination of one of the Institutes of Chartered Accountants in England and Wales, Ireland and Scotland, or the Canadian Institute of Chartered Accountants or the American Institute of Certified Public Accountants, and who is a current member of good

standing of one of the institutes referred to or a person of good standing with some other accountancy qualification who is recognised by the Authority as such for the purpose of this Law;

(2008 Revision) "Authority" means the Cayman Islands Monetary Authority established under section 5 of the Monetary Authority Law (2008 Revision) and includes any employee of the Authority acting under the Authority's authorisation;

"binding authority" means an instrument whereby an insurer authorises an insurance broker to solicit for a specific class of business on its behalf, having laid down terms and conditions, observance of which fully authorises the insurance broker to effect contracts of insurance between the insurer and the applicant for insurance;

"beneficiary" means a person who is designated by the policy holder under a contract of insurance as a person to whom the whole or part of the proceeds are payable on the maturity or surrender of the contract of insurance or the happening of an event;

"class A insurer" means a holder of a valid class A insurer licence referred to in section 4(3)(a);

"class B insurer" means a holder of a valid class B insurer licence referred to in section 4(3)(b);

"class B (i) insurer" means a holder of a valid class B insurer licence referred to in section 4(3)(b)(i);

"class B (ii) insurer" means a holder of a valid class B insurer licence referred to in section 4(3)(b)(ii);

"class B (iii) insurer" means a holder of a valid class B insurer licence referred to in section 4(3)(b)(iii);

"class C insurer" means a holder of a valid class C insurer licence referred to in section 4(3)(c);

"class D insurer" means a holder of a valid class D insurer licence referred to in section 4(3)(d);

"contract" includes a policy;

"court" means the Grand Court or a court of summary jurisdiction;

"domestic business" means insurance business where the contract is in respect of the life, safety, fidelity or insurable interest, other than in respect of property, of a person who at the time of effecting the contract is ordinarily resident in the Islands, or property that at the time of effecting the contract is in the Islands or, in the case of a vehicle, vessel or aircraft, or other movable property is ordinarily based in the Islands;

"external insurer" means a class A insurer who is not a local insurer and whose principal or registered office is in a jurisdiction outside the Islands where the legislation for the regulation and supervision of insurers is acceptable to the Authority;

"financial year" means an annual period in respect of which financial statements are prepared;

"general business" means insurance business other than long term business;

"general insurer" means an insurer carrying on general business;

"insurance agent" means a holder of a valid insurance agent licence referred to in section 4(3)(e);

"insurance broker" means a holder of a valid insurance broker licence referred to in section 4(3)(f);

"insurance business" means the business of accepting risks by effecting or carrying out contracts of insurance, whether directly or indirectly, and includes running-off business including the settlement of claims;

"insurance group" means a group that includes an insurer's subsidiaries, holding company, companies related to the insurer through common ownership or control or which have a majority of common senior management or directors;

"insurance manager" means a holder of a valid insurance manager licence referred to in section 4(3)(g);

"insurer" means a person who is -

(a) licensed under section 4(3)(a), (b), (c) or (d) to carry on insurance business; or
(b) an association of individual underwriters including Lloyd's of London and other associations of underwriters recognised by the Authority for the purposes of section 18 or 31;

"licence" means a licence granted under this Law;

"licensee" means the holder of a valid licence granted under section 4;

"linked policies" means contracts of insurance on human life or contracts to pay annuities on human life where the benefits are wholly or partly to be determined by reference to the value of, or the income from, property of any description, whether or not specified in the contracts, or fluctuations in, or an index of, the value of property of any description, whether or not so specified;

"local insurer" means a class A insurer, incorporated in and having its place of business in the Islands;

"long term insurer" means an insurer carrying on long term business;

"long term business" means insurance business involving the making of contracts of insurance -

(a) on human life or contracts to pay annuities on human life, including linked policies, but excluding contracts for credit life insurance and term life insurance other than convertible and renewable term life contracts;

(b) against risks of the persons insured -

(i) sustaining injury as the result of an accident or of an accident of a specified class;

(ii) dying as the result of an accident or of an accident of a specified class; or

(iii) becoming incapacitated in consequence of disease or diseases of a specified class,

being contracts that are expressed to be in effect for a period of not less than five years or without limit of time and either not expressed to be terminable by the insurer before the expiration of five years from the taking effect thereof or expressed to be so terminable before the expiration of that period only in special circumstances therein mentioned; and

(c) whether by bonds, endowment certificates or otherwise whereby in return for one or more premiums paid to the insurer a sum or series of sums is to become payable to the person insured in the future, not being contracts falling within paragraph (a) or (b);

"margin of solvency" means the excess of the value of prescribed assets over prescribed liabilities;

"policyholder" means the person with whom an insurer has effected a contract of insurance;

"proceeds" means monies, benefits in kind and cash values payable under a contract of insurance or reinsurance and includes any assets acquired with the same;

"reinsurance business" means the business of accepting risks by effecting or carrying one or more contracts of reinsurance whether directly or indirectly, and includes running-off business including the settlement of claims;

"related business" in the context of section 4(3)(b) means business which will originate from the insurer's members or the members of any group with which it is related through common ownership or a common risk management plan, or as determined by the Authority;

"Regulations" means Regulations made under this Law; and

"repealed Law" means the Insurance Law (2008 Revision). (2008 Revision)

(2) For the purposes of this Law -

(a) in determining whether a person is a fit and proper person, the Authority shall have regard to all circumstances, including that person's -
(i) honesty, integrity and reputation;
(ii) competence and capability; and
(iii) financial soundness; and

(b) in determining whether a person ('A') controls another person ('B'), the Authority shall have regard to whether one or more of the following are met -
(i) 'A', either directly or indirectly, holds ten per cent or more of the issued share capital in 'B';
(ii) 'A' is entitled either directly or indirectly to exercise or control the exercise of ten per cent or more of the total voting rights in 'B';
(iii) 'A' has the power to appoint or remove directors of 'B';
(iv) 'A' is the most senior officer responsible for the operations of 'B'; and
(v) 'A' is a person on whose instructions or directions the directors of 'B' either directly or indirectly are accustomed to act.

## PART 2 - LICENSING

Requirement for licence

3. (1) Subject to subsection (3), a person shall not carry on -

(a) insurance business;
(b) reinsurance business; or
(c) business as an insurance agent, insurance broker, or insurance manager,

unless that person holds a valid licence issued for that purpose under this Law.

(2) A person who contravenes subsection (1) commits an offence and is liable on summary conviction to a fine of one hundred thousand dollars or to imprisonment for a term of five years, or to both.

(3) For the purposes of this Law, a person shall not be considered to be carrying on insurance business solely by reason of the fact that the person effects or carries out a contract of reinsurance with an insurer in the Islands, unless the person's principal place of business is in the Islands.

Licences

4. (1) A person desiring to carry on -

(a) insurance business;
(b) reinsurance business; or
(c) business as an insurance agent, insurance broker or insurance manager,

in or from within the Islands shall make an application in writing to the Authority for the grant of a licence under one or more of the categories set out in subsection (3).

(2) An application under subsection (1) shall contain the information prescribed and shall be accompanied by -

(a) a business plan containing the details prescribed; and
(b) the prescribed application fee,

and the Authority, if satisfied pursuant to subsection (5), may approve the application and business plan and grant a licence, subject to such conditions as determined by the Authority for the proper operation and supervision of the licensee.

(3) Subject to subsection (4), the categories of licences which may be granted by the Authority are -

(a) class A insurer licence, for carrying on of domestic insurance business by a local insurer or external insurer, or limited reinsurance business as approved by the Authority;

(b) class B insurer licence, for the carrying on of insurance business other than domestic business in respect of which -

(i) at least ninety-five per cent of the net premiums written will originate from the insurer's related business;

(ii) over fifty per cent of the net premiums written will originate from the insurer's related business; or

(iii) fifty per cent or less of the net premiums written will originate from the insurer's related business;

(c) class C insurer licence, for the carrying on of insurance business involving the provision of reinsurance arrangements in respect of which the insurance obligations of the class C insurer are limited in recourse to and collateralised by the class C insurer's funding sources or the proceeds of such funding sources which include the issuance of bonds or other instruments, contracts for differences and such other funding mechanisms approved by the Authority;

(d) class D insurer licence, for the carrying on of reinsurance business and such other business as may be approved in respect of any individual licence by the Authority;

(e) insurance agent licence for the soliciting of domestic business on behalf of not more than one general insurer and one long term insurer;

(f) insurance broker licence for arranging or procuring, directly or through representatives, insurance or reinsurance contracts or the continuance of such contracts on behalf of existing or prospective policyholders; and

(g) insurance manager licence for providing insurance expertise to or for class B insurers or class C insurers.

(4) A licensee shall be subject to the following conditions -

(a) an insurance broker shall not hold any other licence under this Law except an insurance manager licence;

(b) an insurer that is not a class D insurer and not a class B insurer incorporated as a segregated portfolio company under Part XIV of the Companies Law (2010 Revision) must be separately licensed for long term business and for general business; (2010 Revision)

(c) only a person incorporated under the Companies Law (2010 Revision) and that has a minimum of two directors may be licensed as an insurance broker, insurance manager, a class A insurer that is a local insurer or a class D insurer;

(d) an insurance manager who also carries on business as either an insurance broker or an insurance agent is required to be separately licensed in respect of each such activity;

(e) an insurance agent who acts on behalf of more than one long term and one general insurer is to be taken for the purposes of this Law to be acting as an insurance broker;

(f) only a person incorporated as an exempted company under the Companies Law (2010 Revision) and that has at least two directors may be licensed as a class B insurer or a class C insurer;

(g) a class B insurer may carry on domestic business where such business forms less than five per cent of net premiums written or where the Authority has otherwise granted prior approval which may be reviewed by the Authority at such intervals as the Authority considers appropriate; and

(h) an employee of an insurer does not require an insurance agent licence to solicit of domestic business on behalf of the insurer.

(5) The Authority shall not grant a licence unless it is satisfied that -

(a) the business to which the application relates would be carried on by persons who are fit and proper persons to be directors, managers or officers in their respective positions;

(b) the applicant will be able to comply with the requirements of this Law and the Regulations and with the Money Laundering Regulations (2009 Revision);

(2009 Revision)

(c) it will not be against the public interest;

(d) the applicant has personnel with the necessary skills, knowledge and experience and such facilities and such books and records as the Authority considers appropriate, having regard to the nature and scale of the business;

(e) the structure of the applicant's insurance group, if any, will not hinder effective supervision; and

(f) the applicant's capital complies with the prescribed level.

(6) A licensee who is an insurance broker, an insurance manager, a class A insurer or a class D insurer shall have a place of business in the Islands.

(7) The Authority shall cause notice of each licence granted under this section to be published in the Gazette.

Validity of transactions by unlicensed persons

5. An insurance contract, transaction, obligation or instrument entered into by any person, whether before or after the commencement of this Law, shall not be

rendered void or unenforceable merely because it is entered into in connection with insurance business carried on by a person in contravention of section 3(1).

Requirement for an insurance manager

6. A class B insurer or a class C insurer, unless it maintains permanently a place of business approved by the Authority, shall appoint an insurance manager in the Islands and maintain, at the insurance manager's place of business or at another location approved by the Authority, full and proper records of the business activities of the class B insurer or class C insurer, sufficient to -

(a) explain the transactions of the class B insurer or class C insurer;
(b) disclose, with reasonable accuracy, at any time the state of the affairs of the class B insurer or class C insurer; and
(c) enable the class B insurer or class C insurer to prepare annual financial statements.

Licence renewal fees

7. (1) A licensee shall on or before every 15th day of January after the first grant of the licence, pay the prescribed annual fee in respect of each category of licence held.

(2) A licensee who fails to pay the prescribed annual fee by the date specified in subsection (1) shall, unless the Authority waives the same, pay to the general revenue of the Islands, a surcharge not exceeding one-twelfth of the prescribed annual fee for every month or part of a month that the prescribed annual fee is not paid.

(3) If the prescribed annual fee referred to in subsection (1) is not paid, the unpaid prescribed annual fee may be sued for by the Authority by action as a civil debt and the Authority may require, and the court may order, the payment of any surcharge accrued under subsection (2) in respect of the late payment of the prescribed annual fee.

## PART 3 - OBLIGATIONS OF LICENSEES

Continuing obligations

8. (1) A licensee -

(a) shall carry on insurance business only in accordance with the information given in its approved licence application and business plan and shall seek the prior written approval of the Authority for any change to the approved business plan or in the information supplied in the application;
(b) shall not, without the prior written approval of the Authority -
(i) open outside the Islands a subsidiary, branch, agency or representative office or change its name; or

(ii) where it is an insurer, other than an external insurer, conducting insurance business other than long term business, amalgamate with any one or more insurers or, other than in the normal course of business, transfer its insurance operations or any part thereof, or accept transfer of the insurance operations or any part thereof from another insurer; and

(c) that is required to have a place of business in the Islands shall maintain in the Islands such resources, including staff and facilities, books and records as the Authority may consider appropriate, having regard to the nature and scale of the business.

(2) An insurer shall -

(a) maintain a margin of solvency in accordance with the prescribed solvency requirements;

(b) maintain adequate arrangements for the management of risks, including the reinsurance thereof where appropriate;

(c) maintain capital in accordance with the prescribed capital requirements;

(d) authorize at least one person resident in the Islands and approved by the Authority to accept on its behalf service of process in any legal proceedings and any notices required to be served on it;

(e) where it is a member of an insurance group, inform the Authority of any activity or transaction undertaken or proposed by another member of the group that could reasonably be expected to have a material effect on the insurer;

(f) where it is an external insurer, be responsible for all contracts of domestic business issued by any branch or subsidiary and also for all acts, omissions and liabilities of such branch or subsidiary activity; and

(g) maintain an effective system of governance as approved by the Authority.

(3) An insurance agent, insurance broker or an insurance manager shall establish and maintain a separate account for the brokerage, agency and management account separate from the accounts maintained for each insurer.

(4) A class B insurer that is established as a segregated portfolio company under Part XIV of the Companies Law (2010 Revision) shall, in respect of each segregated portfolio -

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(a) maintain the prescribed margin of solvency;

(b) unless waived by the Authority, comply with section 9(1)(a) and (c); and

(c) cause each submission under paragraph (b) to be prepared using the same financial year end.

Returns required of insurer

9. (1) An insurer shall, except as otherwise approved by the Authority in writing and subject to subsection (3), submit to the Authority by way of annual return, within six months of the end of its financial year -

(a) audited financial statements prepared in accordance with internationally recognised accounting standards by an independent auditor approved by the Authority, together with a copy of any prescribed management letter issued by the auditor;
(b) an actuarial valuation of its assets and liabilities including loss and loss expense provisions, certified by an actuary approved by the Authority;
(c) certification of solvency prepared by a person approved by the Authority in accordance with the prescribed requirements;
(d) written confirmation that the information set out in the application for the licence, as modified by any subsequent changes approved by the Authority, remains correct; and
(e) such other information as may be prescribed.

(2) A class A insurer shall, except as otherwise approved in writing by the Authority, submit in the return under subsection (1), a list of insurance agents and insurance brokers who have the class A insurer's authority to solicit domestic business on its behalf, and confirmation that the class A insurer is satisfied that the agents are fit and proper persons and have complied with the applicable requirements under this Law.

(3) The following exemptions apply to the requirements of subsection (1) -

(a) a class C insurer or a class B insurer that does not write long term business is not required to make submissions under subsection (1)(b) or (c); and
(b) the Authority may in writing exempt other classes of insurer from the requirement under subsection (1)(b) where it considers it appropriate, based on the nature, scale or scope of the insurance business involved.

(4) The audited financial statements and actuarial valuation referred to in subsection (1)(a) and (b) shall disclose the standards applied and -

(a) a class A insurer or class D insurer shall publish its audited financial statements at a time no later than the time that it submits them to the Authority; and

(b) a class B(iii) insurer shall make its audited financial statements available to insured persons, third party beneficiaries, and such other persons as may be prescribed, on request.

Returns required of insurance broker and insurance manager

10. (1) Except as otherwise approved by the Authority in writing, an insurance broker or an insurance manager shall submit to the Authority by way of annual return, within six months of the end of its financial year -

(a) financial statements prepared in accordance with internationally recognised accounting standards;
(b) written confirmation that the information set out in the licence application, as modified by any subsequent changes approved by the Authority, remains correct;
(c) evidence of adequate professional indemnity insurance as required under section 13; and
(d) such other information as may be prescribed.

(2) In addition to the submissions required under subsection (1), except as otherwise approved in writing by the Authority -

(a) an insurance broker shall in respect of domestic business submit a list of all insurers for whom the insurance broker is authorised to act, commissions received from each insurer and the premium income received on behalf of and remitted to each such insurer during the financial year; and
(b) an insurance manager shall submit a list of all insurers for whom the insurance manager acts.

Returns required of insurance agent

11. Except as otherwise approved by the Authority, in writing, an insurance agent shall submit to the Authority by way of annual return within six months of the end of the calendar year, in respect of his domestic business -

(a) confirmation in writing that the insurance agent is acting for no more than two insurers and the names of those insurers;
(b) evidence of the existence of a power of attorney, agency agreement or guarantee or professional indemnity insurance as required under section 14; and
(c) confirmation in writing that the information set out in the insurance agent's application for the licence, as modified by any subsequent changes approved by the Authority, remains correct.

Shares not to be issued or transferred without Authority's approval

12. (1) Shares totalling more than ten per cent of the authorised share capital of a company that is a licensee under this Law shall not be issued, and issued shares totalling more than ten per cent of the issued share capital or total voting rights of a company that is a licensee under this Law shall not be transferred or disposed of in any manner, without the prior approval of the Authority.

(2) For the purposes of subsection (1), the licensee shall provide such information to the Authority, and within such period of time, as the Authority may require for the purpose of assessing whether persons acquiring control or ownership of such shares or voting rights in the licensee are fit and proper persons to have such control or ownership.

(3) The Authority may exempt from subsection (1) a licensee whose shares or the shares of whose parent body, if any, are publicly traded on a stock exchange recognised by the Authority, and any such exemption -

(a) shall be subject to a condition that the licensee shall, as soon as reasonably practicable, notify the Authority of -
  (i) any change in control of the licensee;
  (ii) the acquisition by any person or group of persons of shares representing more than ten per cent of the licensee's issued share capital or total voting rights; or
  (iii) the acquisition by any person or group of persons of shares representing more than ten per cent of the issued share capital or total voting rights of the licensee's parent company;
(b) shall be subject to a condition that the licensee shall, as soon as reasonably practicable, provide such information to the Authority, and within such period of time, as the Authority may require for the purpose of assessing whether persons acquiring control or ownership of the licensee in the circumstances set out in paragraph (a) are fit and proper persons to have such control or ownership; and
(c) shall be subject to such terms and conditions as the Authority may consider necessary.

(4) In subsection (1), the reference to shares being transferred or disposed of includes the transfer or disposal of the legal interest in the shares and the transfer or disposal of any beneficial interest in the shares.

(5) For the avoidance of doubt and for the purpose of issuing or transferring of issued shares or voting rights in this section, the references to shares totalling more than ten per cent includes cumulative acquisition of shares or voting rights less than ten per cent which amount to more than ten per cent of the authorized share capital of a company.

Insurance broker or insurance manager to carry professional indemnity insurance

13. (1) Except as otherwise approved by the Authority, an insurance broker or insurance manager shall maintain in force, and comply with the conditions of cover of, professional indemnity insurance placed with an insurer licensed to

carry on domestic business or an insurer accorded special dispensation under section 18.

(2) The professional indemnity insurance required under subsection (1) shall -

(a) provide for an indemnity of not less than eight hundred and twenty thousand dollars for any one loss, or such other figure as may be specified by the Authority;
(b) extend to include the activities conducted on behalf of the broker or insurance manager; and
(c) be subject to review by the Authority.

(3) In the event that the professional indemnity insurance required under subsection (1) is invalidated, becomes voidable or is withdrawn, cancelled or not renewed, the licensee shall immediately notify the Authority and shall forthwith cease to solicit further insurance business until such professional indemnity insurance has been reinstated or replaced.

Power of attorney, agency agreement, guarantee or indemnity insurance

14. (1) An insurance agent shall provide evidence satisfactory to the Authority of a power of attorney, agency agreement or guarantee satisfactory to the Authority, between the insurance agent and the insurer for whom the insurance agent acts.

(2) A power of attorney, agency agreement or guarantee provided under subsection (1) shall extend to include activities conducted on behalf of the insurer by the insurance agent.

(3) In the event that a power of attorney, agency agreement or guarantee provided under subsection (1) is withdrawn or determined, the insurance agent shall forthwith notify the Authority and shall forthwith cease to solicit further insurance business until the power of attorney, agency agreement or guarantee has been reinstated.

(4) An insurance agent may, as an alternative to meeting the requirement laid down in subsection (1), maintain in force professional indemnity insurance in accordance with the requirements and for the amount specified in section 13.

Trust funds

15. (1) Except as otherwise approved by the Authority, an external insurer that carries out domestic business shall, at all times, place and maintain upon trust, with a person approved by the Authority, in a segregated account at a bank in the Islands which holds an "A" licence issued under the Banks and Trust Companies Law (2009 Revision), funds as approved by the Authority in respect of its -

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(a) general business; and
(b) long term business.

(2) Trust funds placed and maintained under subsection (1) shall be held under a trust deed approved by the Authority, which shall provide that -

(a) the funds are exclusively to be used to discharge the external insurer's obligations to policyholders, and for no other purpose; and
(b) the funds are not to be made the subject of any charge, security interest, mortgage, trust, assignment, lien or other dealing,

and except with the written consent of the Authority, any distribution, dealing or undertaking entered into in contravention of paragraphs (a) or (b) shall be void.

(3) An external insurer shall -

(a) provide, within two months of the end of its financial year, a report to the Authority in the prescribed form confirming the placement or maintenance of the funds approved by the Authority under subsection (1); and
(b) if the funds held in trust under subsection (1) fall below the prescribed level, notify the Authority of the fact within seven working days, together with its proposed remedial actions, for the approval of the Authority.

Separate accounts for long term and general business

16. (1) A class D insurer carrying on both long term business and general business shall keep separate accounts in respect of its long term business.

(2) All receipts of funds in respect of the class D insurer's long term business shall be placed in a separate long term business account, and payments from that account shall not be made directly or indirectly for any purpose other than those of the class D insurer's long term business attributable to that account, except insofar as the payments can be made out of any surplus disclosed on an actuarial valuation and certified by an actuary approved by the Authority to be distributable otherwise than to policyholders.

(3) An insurer that issues linked policies shall keep a separate account in respect of its linked policies and shall maintain sufficient records to identify the assets and liabilities of that account.

(4) A licensee that issues linked policies shall establish and maintain one or more funds consisting of assets that are segregated from the other assets of the licensee and that are specified as the assets on the market value of which the liabilities of the licensee in respect of those linked policies or amounts depend.

Further provisions relating to long term business accounts

17. A class A insurer, class B insurer or class D insurer carrying on long term business may establish any number of separate accounts in respect of contracts to pay annuities on human life and contracts of insurance on human life, the assets relating to which shall be kept segregated one from the other and independent of all other assets of the insurer, and -

(a) separate accounts shall not be chargeable with any liability arising from any other business, including other types of long term business, of the insurer and no liabilities shall be satisfied out of the assets standing to the credit of the relevant separate account apart from those liabilities arising from the contract for which the separate account was established or liabilities relating specifically to the operation of the separate account;

(b) subject to paragraph (a), the assets of a separate account shall include all premiums paid with respect to the contract for which the separate account was established and all interest, earnings and assets derived from the premiums; and

(c) any claim of the insurer under a contract of reinsurance taken out by the insurer in respect of a contract for which a separate account has been established shall be deemed to be an asset of the relevant separate account to the extent only that the insurer fails to meet its obligations under the relevant contract and upon payment of any amount due under the contract of reinsurance shall be immediately credited to the relevant separate account, whether the insurer is solvent or not.

Dispensations to broke business from unlicensed insurers

18. (1) The Authority may grant a special dispensation to an insurance broker to place a contract of domestic business with one or more insurers that are not licensed under this Law where -

(a) the insurers have not been refused a licence under this Law; and

(b) the Authority is satisfied that -

(i) the insurers are fit and proper;

(ii) the proposed volume of domestic business to be placed with the insurers is inadequate to support the payment of licence fees for a class A insurer licence, or that some other good and sufficient reason exists; and

(iii) there is an evident need on the part of the insurance broker, in terms of additional capacity or policy coverage, or otherwise, that the business be so placed.

(2) A dispensation under subsection (1) shall be subject to review at such intervals as the Authority may specify.

(3) The insurers in respect of whom a dispensation under subsection (1) has been granted shall nominate at least one person resident in the Islands and approved by the Authority who is authorised to accept on its behalf service of process in any legal proceedings and any notices to be served.

(4) An insurance broker who has not been granted a special dispensation under subsection (1) shall be personally liable to the insured on all contracts of insurance placed with insurers not licensed under this Law, in the same manner as if the insurance broker were the insurer.

Regulation of agreements between insurance brokers and insurers

19. (1) Subject to subsection (2), an insurance broker shall not enter into a binding authority with an insurer other than a class D insurer.

(2) The Authority may grant a dispensation for a fixed period to an insurance broker, despite the duty of the insurance broker to act for the prospective insured, to enter into a binding authority with an insurer if it is satisfied that the insurance broker needs, in terms of additional capacity, policy coverage, cost savings or otherwise, the binding authority to be permitted.

(3) An application for a dispensation shall be in writing and shall be accompanied by such additional information as the Authority may require.

(4) A dispensation granted under this section shall be subject to any conditions that the Authority sees fit, including restrictions to lines of business, specific contracts, types of client and requirements for disclosure and review at such intervals as the Authority may specify.

(5) An unlicensed insurer with whom a broker can place insurance business pursuant to a dispensation granted under this section shall not by virtue of that fact be regarded as carrying on insurance business in or from within the Cayman Islands.

Duties of auditor

20. (1) If an auditor, in the course of carrying out an audit of the accounts of a licensee under this Law, obtains information or suspects that the licensee is -

(a) unable or likely to become unable to meet its obligations as they fall due;
(b) carrying on or attempting to carry on business or winding up its business voluntarily in a manner that is prejudicial to its policyholders or creditors;
(c) carrying on or attempting to carry on business without keeping any or sufficient accounting records to allow its accounts to be properly audited;

(d) carrying on or attempting to carry on business in a fraudulent or criminal manner; or

(e) carrying on or attempting to carry on business otherwise than in compliance with -

(i) this Law or the Regulations;

(2008 Revision) (ii) the Monetary Authority Law (2008 Revision);

(2009 Revision) (iii) the Money Laundering Regulations (2009 Revision); or

(iv) a condition of the licence,

the auditor shall immediately give the Authority written notice of his information or suspicion and, in the case of suspicion, his reason for that suspicion.

(2) Without prejudice to subsection (8), if it appears to the Authority that an auditor has failed to comply with subsection (1), the Authority may disqualify him from being an auditor of a licensee, but the Authority may remove any disqualification imposed under this subsection if satisfied that the person in question will in future comply with subsection (1).

(3) A licensee shall not appoint as an auditor a person disqualified under subsection (2).

(4) Where the Authority has granted approval of an auditor under this Law, the approval may be revoked by the Authority if the Authority is of the opinion that the auditor is not sufficiently competent to carry out an audit of the accounts of a licensee or that, in all the circumstances, the auditor is incapable of carrying out the audit objectively.

(5) When a licensee changes its auditor, the Authority may require the former auditor to explain the reasons for the change.

(6) A person carrying out or charged with the carrying out of any duty, obligation or function under this section shall not incur civil liability to any other person for anything done or omitted to be done in respect of the discharge or purported discharge of that duty or function unless it is shown that the act or omission concerned was in bad faith.

(7) A reference in this section to an auditor carrying out an audit of the accounts of a licensee includes a reference to an auditor who was engaged to carry out such an audit or who was in the course of carrying out such an audit but resigned before carrying out or completing the audit or whose contract to carry out or complete the audit was otherwise terminated.

(8) Nothing in subsection (1) shall impose on an auditor carrying out an audit of the accounts of a licensee an obligation to do anything that the auditor would not otherwise be required to do in accordance with generally accepted auditing standards, other than the obligation to provide notice and reasons to the Authority.

(9) A person who contravenes subsection (1) commits an offence and liable on summary conviction to a fine of one hundred thousand dollars or to imprisonment for a term of five years, or to both.

Insurance managers

21. (1) An insurance manager shall use his best endeavours to manage insurance business only for fit and proper insurers.

(2) If the insurance manager, in respect of any insurer for or with whom the insurance manager is managing insurance business -

(a) has concerns regarding the fitness and probity of the insurer;
(b) obtains information or suspects that the insurer is unable or likely to become unable to meet its obligations as they fall due;
(c) obtains information or suspects that the insurer is carrying on or attempting to carry on business in a fraudulent or criminal manner;
(d) obtains information that the insurer is involved in any criminal proceedings, whether in the Islands or abroad;
(e) obtains information about a material change in the nature of the insurer's business that has not been reported to the Authority;
(f) in relation to a class B(i) insurer or class B(ii), obtains information that the limit on unrelated business is exceeded; or
(g) obtains information or suspects that the insurer is carrying on or attempting to carry on business otherwise than in compliance with -
    (i) this Law or the Regulations;
    (ii) the Monetary Authority Law (2008 Revision); (2008 Revision)
    (iii) the Money Laundering Regulations (2009 Revision); or (2009 Revision)
    (iv) a condition of its licence,

the insurance manager shall report the same forthwith to the Authority.

(3) A person carrying out or charged with the carrying out of any duty, obligation or function under this section shall not be liable in damages for anything done or omitted in the discharge or purported discharge of that duty, obligation or function under this section unless it is shown that the act or omission was in bad faith.

(4) If either party to an agreement relating to representation between an insurer and an insurance manager intends to terminate the agreement, the party shall give sixty days written notice of the proposed termination to the Authority unless the Authority waives the requirement in writing.

## PART 4 - POWERS AND DUTIES OF THE AUTHORITY

Duties of the Authority

22. (1) It is the duty of the Authority -

(a) to maintain a general review of insurance business in the Islands;

(b) from time to time to examine by way of scrutiny of regular returns, on-site inspections or auditors' reports, or in such other manner as the Authority may determine, the affairs or business of any licensee or other person carrying on, or who has at any time carried on, insurance business, for the purpose of a general review under paragraph (a) or for the purpose of satisfying itself that this Law or any regulations made under this Law or the Proceeds of Crime Law, 2008 are being complied with and that the licensee is carrying on business in a fit and proper manner;

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(c) to examine the annual returns submitted to the Authority under sections 9, 10 and 11; and

(d) to examine and make determinations with respect to -

(i) applications for licences under section 4;

(ii) applications for approval of the use of words or representations which require approval under section 36(1);

(iii) proposals for the revocation of licences under section 25;

(iv) changes under section 8(1)(a);

(v) cases of suspected insolvency;

(vi) the exercise of powers under section 23 or 24; and

(vii) applications for approval of auditors.

(2) In the performance of its functions under this Law, the Authority is entitled at all reasonable times -

(a) to have access to such books, records, vouchers, documents, cash and securities of any licensee; and

(b) to request any information, matter or thing from any person who it has reasonable grounds to believe is carrying on insurance business in contravention of section 3(1),

as the Authority may reasonably require for the purpose of enabling it to perform its functions under this Law.

(3) The Authority may take all necessary action to ensure the proper and just implementation of this Law, and may authorize in writing any other person to assist it in the performance of its functions.

(4) For the purpose of performing its duties under subsection (1)(b), the Authority may in writing authorize any person, at the expense of the licensee, to examine the affairs or business of any licensee or other person carrying on insurance business and to report to the Authority the results of the examination.

(5) Where the Authority considers it necessary for the proper supervision of a licensee, the provisions of subsections (1)(b) and (2) may be applied to activities or transactions of any member of the licensee's insurance group.

Directions by the Authority

23. (1) Where the Authority is of the opinion that a licensee -

(a) is committing, or about to commit, an act that is an unsafe or unsound practice in conducting the business of the licensee; or
(b) is pursuing or about to pursue, a course of conduct that is an unsafe or unsound practice in conducting the business of the licensee,

the Authority may direct the licensee, in relation to a policy, a line of business or the entire business of the licensee, to cease or refrain from committing the act or pursuing the course of conduct and to perform such acts as in the opinion of the Authority are necessary to remedy or ameliorate the situation.

(2) A person, who without reasonable cause, fails to comply with a direction given by the Authority under subsection (1) commits an offence and is liable-

(a) on summary conviction to a fine of one hundred thousand dollars or to imprisonment for a term of five years or to both; and
(b) on conviction on indictment to a fine of five hundred thousand dollars or to imprisonment for a term of ten years or to both,

and if the offence of which he is convicted is continued after conviction he commits a further offence and is liable to a fine of ten thousand dollars for every day on which the offence is so continued.

(3) The provisions of this section may be applied to a segregated portfolio within a segregated portfolio company that is licensed under this Law.

Powers of the Authority

24. (1) The Authority may immediately do any of the things provided in subsection (2), where the Authority is of the opinion that -

(a) a licensee is or appears likely to become unable to meet its obligations as they fall due;
(b) a licensee is carrying on business in a manner detrimental to the public interest or to the interest of its creditors or policy holders;
(c) the activities of any member of the licensee's insurance group are detrimental to the interest of the licensee's creditors or policy holders;
(d) a licensee has contravened this Law or the Money Laundering Regulations (2009 Revision); (2009 Revision)
(e) a licensee has failed to comply with a condition of its licence or with section 8(2);
(f) the direction and management of a licensee's business has not been conducted in a fit and proper manner;
(g) a person holding a position as a director, manager or officer of a licensee's business is not a fit and proper person to hold the respective position; or
(h) a person holding or acquiring control or ownership of a licensee is not a fit and proper person to have such control or ownership.

(2) Where subsection (1) applies, the Authority may do any of the following -

(a) require the licensee immediately to take steps to rectify the matter;
(b) suspend the licence of the licensee pending a full enquiry into the licensee's affairs made under section 22(1)(b);
(c) revoke the licence;
(d) impose conditions with respect to decisions made by the licensee including the suspension of voting rights or nullification of votes cast;
(e) impose conditions, or further conditions, upon the licence and amend or revoke any such condition;
(f) require the substitution or removal of any director, manager or officer of the licensee;
(g) at the expense of the licensee, appoint a person to advise the licensee on the proper conduct of its affairs;
(h) at the expense of the licensee, appoint a receiver or person to assume control of the licensee's affairs who shall have all the powers necessary to administer the affairs of the licensee including power to terminate the insurance business of the licensee; and
(i) require such action to be taken by the licensee as the Authority considers necessary.

(3) Notwithstanding section 34(1), a licensee may, within seven days of the decision, apply to the Authority for a reconsideration of its decision to revoke a licence under subsection (2)(c).

(4) A person appointed in respect of a licensee under subsection (2)(g) or (h) shall -

(a) when requested to do so by the Authority, supply the Authority with such information in respect of the licensee as is specified by the Authority;
(b) within three months of his appointment, or within such other period as the Authority may specify, prepare and supply to the Authority a report on the affairs of the licensee making, where appropriate, recommendations in respect of the licensee; and
(c) if his appointment is not terminated after supplying the report referred to in paragraph (b), subsequently supply to the Authority such other information, reports and recommendations as the Authority specifies.

(5) On receipt of a report under subsection (4), the Authority may -

(a) revoke the appointment of the person appointed under subsection (2)(g) or (h);
(b) extend the period of his appointment;
(c) subject to such conditions as the Authority may impose, allow the licensee to reorganise its affairs in a manner approved by the Authority;
(d) revoke the licence; or
(e) apply to the Grand Court for an order that the licensee be forthwith wound up by that Court in which case the provisions of the Companies Law (2010 Revision) relating to the winding up of a company by that Court shall apply. (2010 Revision)

(6) The Authority may revoke a licence if the licensee -

(a) has ceased to carry on insurance business; or
(b) goes into liquidation or is wound up or otherwise dissolved.

(7) Where the Authority suspends a licence under subsection (2)(b) or revokes a licence under subsection (2)(c), subsection (5)(d) or subsection (6), the Authority shall cause notice of the suspension or revocation to be published in the Gazette, and may also cause the notice to be published, whether within the Islands or elsewhere, in such newspaper or other publication as the Authority may consider necessary in the circumstances.

(8) The provisions of this section may be applied to a segregated portfolio within a segregated portfolio company that is licensed under this Law.

Avoidance of confusion of names

25. The Authority may revoke the licence of a licensee who carries on insurance business or acts as an insurance agent, an insurance broker or an insurance manager under a name which -

(a) is identical with that of any other person, company, firm or business whether within the Islands or not, or which so nearly resembles that name as to be calculated to deceive;
(b) is calculated falsely to suggest the patronage of or connection with some person of authority whether within the Islands or not;
(c) is calculated falsely to suggest that the person has a special status in relation to or derived from the Government of the Islands, or has the official backing of or acts on behalf of the Government of the Islands or of any department or official thereof or is recognised in the Islands as a local insurer, insurance agent, insurance broker or insurance manager; or
(d) is calculated falsely to suggest that the licensee is carrying on insurance business in a different category from that in respect of which he is licensed.

Preservation of assets, etc.

26. (1) In any case where the Authority has exercised its powers under section 24, the Authority may apply *ex parte* to the Grand Court for an order that the assets, books or papers of the licensee be preserved, not moved or otherwise disposed of and the Grand Court may, if it is satisfied that the assets, books or papers are liable to be moved, destroyed or otherwise disposed, of make an order that they shall be preserved, and not be moved or otherwise disposed of until a further order of that Court.

(2) Where an order has been made by the Grand Court under subsection (1), the licensee may apply to the Grand Court at any time for the discharge of the order and the Grand Court may thereupon discharge, vary or confirm the order.

Authority may attend winding up proceedings

27. (1) Where a petition for the winding up of a licensee or a person who has at any time been a licensee is presented by a person other than the Authority the petitioner shall serve the Authority with a copy of the petition and the Authority may appear at the hearing of the petition and the provisions of subsections (2) and (3) shall apply.

(2) A document which relates to a petition for winding-up and which is required to be sent to any person specified in subsection (1), or to any of his respective creditors, shall also be sent to the Authority.

(3) A person appointed for the purpose by the Authority may -

(a) attend a meeting of creditors of a person specified in subsection (1);
(b) attend a meeting of a committee established to discuss a compromise or arrangement; and
(c) make representations as to any matter for decision at any such meeting.

Surrender of licence

28. A licensee may apply to the Authority to surrender its licence if it -

(a) has ceased to carry on the business in respect of which the licence was granted and its liability has been extinguished to the satisfaction of the Authority; or
(b) is being wound up voluntarily and produces evidence that it is solvent and able forthwith to repay all its creditors,

and the Authority may, where an application is made, approve the surrender and cancel the licence and publish the cancellation in the Gazette.

## PART 5 - MISCELLANEOUS

How benefits of insurance policies should inure

29. (1) Subject to subsection (2), all proceeds paid or payable to a policy holder or a beneficiary under a contract of insurance in respect of long term business issued by any insurer shall inure exclusively for the benefit of the policy holder or the beneficiary in accordance with the terms of the contract of insurance and -

(a) shall be protected from the claim of any creditor in bankruptcy, insolvency, administration or similar proceedings relating to any person, whether that person is the policy holder or a beneficiary or whether the claim arose before or after payment under the contract of insurance, unless the contract of insurance was effected for the benefit of the creditor; and
(b) shall not be subject to or be otherwise available to meet the claim of any creditor of a person, whether that person is the policy holder or a beneficiary or whether the claim arose before or after payment under the contract of insurance, unless the contract of insurance was effected for the benefit of the creditor.

(1996 Revision)

(2) Where premiums are paid by any person to an insurer with intent to defraud a creditor, nothing contained in the Fraudulent Dispositions Law (1996 Revision) shall operate to set aside a payment made under this section and any creditor of the person shall be entitled only to receive out of the proceeds a sum equal to the premiums so paid, together with such interest as the court may order, for the period between payment of the premium and the date of the payment.

(3) For the purposes of the application of the Fraudulent Dispositions Law (1996 Revision) to subsection (2) -

(a) the premium or premiums paid under subsection (2) shall be deemed to be dispositions at undervalue;
(b) the six-year limitation period in section 4(3) of that Law shall apply to the claim of the creditor but the enforcement of any judgment resulting from the claim shall be permitted against the proceeds outside of any limitation period; and
(c) at no time shall the creditor have any right of action or claim against the insurer.

(4) This section applies notwithstanding that -

(a) the policy holder reserves a power to nominate or remove one or more other beneficiaries; or
(b) the policy holder or the estate of the policy holder is an actual or contingent beneficiary under the contract of insurance.

(1996 Revision)

(5) For the purposes of subsection (2), creditor means creditor as defined in section 2 of the Fraudulent Dispositions Law (1996 Revision).

Effect of payment of proceeds

30. Any payment of proceeds made to a policy holder or beneficiary by the insurer in accordance with this Law and the contract of insurance shall discharge the insurer from any further liability under the relevant contract of insurance and the insurer shall not thereafter be responsible for, or be required to see to, the application of the payment.

Portfolio transfer

31. (1) A transfer or amalgamation of the whole, or any part, of the long term business of any insurer to another insurer shall only be effected in accordance with the approval of the Authority.

(2) An application for approval under subsection (1) shall be accompanied by -

(a) a statement as to the solvency of the transferee;
(b) a certified copy of the agreement under which the transfer is to be effected;
(c) a report on the terms of the proposed transfer, prepared by a competent professional person approved by the Authority; and
(d) satisfactory proof that sufficient notice of the proposed transfer has been served on each policyholder affected and that the notice has been published in local media at least thirty days before the application to the Authority is made.

(3) The Authority may approve the proposed transfer as presented or subject to such terms and conditions as it sees fit, having regard to the rights and interests of all policyholders affected by the transfer and all the circumstances of the case.

(4) The Authority may impose conditions on applicants under this section and in particular -

(a) for the transfer from the transferor to the transferee of the whole or any part of the undertaking concerned and of any property or liabilities of the transferor concerned;
(b) for the allotment or appropriation by the transferee of any shares, debentures, policies or other similar interests in the transferee which under the scheme are to be allotted or appropriated to or for any other person;
(c) for the transfer of property or liabilities whether or not the transferor concerned otherwise has the capacity to effect the transfer in question;
(d) in relation to property held by the transferor as trustee;
(e) in relation to future or contingent rights or liabilities of the transferor; and
(f) for securing the effective transfer to the transferee of any property or liabilities, that is the subject of the transfer, situated in or governed by the law of any jurisdiction outside of the Islands.

(5) In this section -

"liabilities" includes duties;

"property" includes property, rights and powers of any description;

"transferee" means the insurer to whom the long term business of the transferor is transferred; and

"transferor" means the insurers whose long term business is transferred under subsection (1).

Jurisdiction relating to domestic business

32. Every contract of domestic business shall be subject to the jurisdiction of the courts of the Islands, notwithstanding any provision to the contrary contained in the contract or in any agreement related to the contract.

Arbitration

33. Where there is no valid arbitration agreement in place and a dispute or difference arises out of or in connection with a contract of domestic insurance, the parties to the dispute or difference shall agree to the appointment of one arbitrator and if the parties are unable to agree the Authority shall appoint an arbitrator and the Arbitration Law (2001 Revision) shall apply with the necessary changes.

(2001 Revision)

Appeals

34. (1) An appeal shall lie to the Grand Court against any decision of the Authority other than a decision of the Authority to present a winding up petition or to apply for the appointment of a receiver or controller.

(2) An appeal under this section shall not operate as a stay of any decision appealed against.

(3) The Rules Committee of the Grand Court may make Rules of Procedure governing the conduct of appeals under this section.

Application, etc.

35. (1) Nothing in this Law derogates from any provision of the Immigration Law (2009 Revision) relating to gainful occupation licences.

(2009 Revision)

(2) A person who is licensed under this Law shall not be required to be licensed under the Local Companies (Control) Law (2007 Revision) or the Trade and Business Licensing Law (2007 Revision).

(2007 Revision)
(2007 Revision)

(3) This Law has no application to or effect upon -

(a) governmental pension arrangements;
(b) the validity of policies of insurance in existence at the date of coming into effect of this Law;
(c) the Friendly Societies Law (1998 Revision); or
(d) pecuniary loss insurance provided by banks licensed under the Banks and Trust Companies Law (2009 Revision).

(1998 Revision)

(2009 Revision)

Use of the word "insurance", etc.

36. (1) Except with the approval of the Authority or where the person is a licensee, a person shall not -

(a) use or continue to use, in English or in any other language, the words "insurance", "assurance", "indemnity", "guarantee", "underwriting", "reinsurance", "surety", "casualty" or any other word which in the opinion of the Authority connotes insurance business or any of their derivatives in the description or title under which he carries on business in or from within the Islands; or

(b) make or continue to make any representation in any billhead, letter, letterhead, circular, paper, notice or advertisement, or by any manner whatsoever, that he is carrying on insurance business.

(2) Before giving its approval under subsection (1), the Authority may require of any person such references and such information and particulars as may be prescribed.

(3) A person who contravenes subsection (1) commits an offence and is liable on summary conviction to a fine of twenty thousand dollars or to imprisonment for a term of two years, or to both.

False or misleading information

37. (1) A licensee, applicant for a licence, or any director or officer of a licensee or of an applicant shall not knowingly or wilfully supply false or misleading information to the Authority.

(2) A licensee, applicant for a licence, or any director or officer of a licensee or of an applicant who contravenes subsection (1) commits an offence and is liable on summary conviction to a fine of one hundred thousand dollars or to imprisonment for a term of five years, or to both.

Misleading representations

38. (1) A person shall not knowingly make, issue or permit to be made or issued any representation about or description of his insurance business, by whatever form or method, that is misleading or likely to be misleading to the public.

(2) A person who contravenes subsection (1) commits an offence and is liable on summary conviction to a fine of one hundred thousand dollars or to imprisonment for a term of five years, or to both.

Liability of directors etc., where the offence is committed by a corporation

39. (1) Where an offence under this Law or the Regulations which has been committed by a body corporate is proved to have been committed with the consent or connivance of, or to be attributable to any neglect on the part of any senior officer of the body corporate, or any person who was purporting to act in such a capacity, he as well as the body corporate is guilty of that offence and is liable to be proceeded against and punished accordingly.

(2) In subsection (1), "director", in relation to a body corporate whose affairs are managed by its members, means a member of the body corporate.

Regulations

40. (1) The Governor in Cabinet may make regulations -

(a) prescribing anything by this Law required to be prescribed;

(b) exempting any person or class of persons or business or class of business from any provision of this Law;
(c) prescribing forms to be used;
(d) prescribing any returns to be made under this Law;
(e) prescribing capital and solvency margins and ratios to be maintained by licensees under this Law;
(f) prescribing any fees payable; and
(g) providing for such matters as may be necessary or convenient for carrying out or giving effect to this Law and its administration.

(2) Regulations made under this Law may -

(a) make different provision in relation to different cases or circumstances;
(b) apply in respect of particular persons or particular cases or particular classes of persons or particular classes of cases, and define a class by reference to any circumstances whatsoever; or
(c) contain such transitional, consequential, incidental or supplementary provisions as appear to the Governor in Cabinet to be necessary or expedient for the purposes of the regulations.

(3) Regulations made under this Law may create an offence punishable by a fine not exceeding ten thousand dollars.

Repeal (2008 Revision)

41. The Insurance Law (2008 Revision) is repealed.

Savings, transitional and consequential provisions Schedule

42. (1) The Schedule, which contains specific savings, transitional and consequential provisions, shall have effect.

(2) Notwithstanding section 40, the Governor in Cabinet may make regulations to provide for such further savings, transitional and consequential provisions to have effect in connection with the coming into operation of any provision of this Law as are necessary or expedient.

(3) Regulations made under subsection (2) may be given retrospective operation to a day not earlier than the day this Law comes into force.

(4) Subsections (2) and (3) shall expire one year after they come into force.

(5) Regulations made under this section shall be subject to negative resolution.

## SCHEDULE

(Section 42(1))

## SAVINGS, TRANSITIONAL AND CONSEQUENTIAL PROVISIONS

Continuance of applications

1. Every application for a licence, dispensation, approval or other matter made under the repealed Law that has not been wholly dealt with by the Authority or other person or body to which it has been made when this Law comes into force shall be taken to be an application made under this Law, and this Law shall apply accordingly.

Continuance of civil proceedings pending or in progress

2. Except as otherwise expressly provided in this Law every civil matter and proceeding commenced in any court under the repealed Law and pending or in progress immediately before this Law comes into force may be continued, completed and enforced under this Law.

Continuance of criminal proceedings

3. All proceedings in respect of offences committed against the repealed Law may be commenced or continued as if this Law had not come into force.

Saving of licences, etc.

4. Subject to paragraph 5, every licence, dispensation, approval or direction made or granted under the repealed Law and in force immediately before this Law comes into force shall continue in force after this Law comes into force on the same conditions and with the same effect as if this Law had not come into force.

Implementation of new conditions

5. A licensee existing at the coming into force of this Law who is not in compliance with one or more of the conditions specified in section 4(4) as may be applicable to him shall so comply within eighteen months of the coming into force of this Law or such longer period as the Authority may for good cause shown permit and, if it is applicable, shall comply in the interim with section 8.

Implementation of requirements relating to places of business

6. A licensee existing at the coming into force of this Law who is not in compliance with sections 4(6) and 8(1)(c) shall so comply within eighteen months of the coming into force of this Law.

Implementation of insurance conditions

7. An insurance broker or insurance manager who is not fully compliant with the requirements contained in section 10 at the coming into force of this Law or who does not have a business plan approved by the Authority shall comply with those requirements within eighteen months of the coming into force of this Law.

Saving forms in use

8. Every form issued or prescribed for use under the repealed Law is to be regarded as issued or approved for use under this Law until another form is issued or prescribed for use under this Law in place of that form.

Periods of time

9. Where any period of time specified in the repealed Law is current at the coming unto force of this Law, and there is a corresponding provision in this Law, this Law shall have effect as if that corresponding provision had been in force when that period began to run.

Passed by the Legislative Assembly the 15th day of September, 2010.

Mary J. Lawrence J.P.

Speaker.

Zena Merren-Chin

Clerk of the Legislative Assembly.

**CAYMAN ISLANDS**




Supplement No. 7 published with Extraordinary Gazette No. 23 of 21st March, 2018.

**THE INSURANCE LAW, 2010**

**(LAW 32 OF 2010)**

# INSURANCE (CAPITAL AND SOLVENCY) (CLASSES B, C AND D INSURERS) REGULATIONS

**(2018 REVISION)**

Revised under the authority of the Law Revision Law (1999 Revision).

The Insurance (Capital and Solvency) (Classes B, C and D Insurers) Regulations, 2012 made 12th December, 2012.

Consolidated with -

The Insurance (Capital and Solvency) (Classes B, C and D Insurers) (Amendment) Regulations, 2016 made 27th April, 2016.

Consolidated and revised this 28th day of February, 2018.

**THE INSURANCE (CAPITAL AND SOLVENCY) (CLASSES B, C AND D INSURERS) REGULATIONS**

**(2018 Revision)**

**ARRANGEMENT OF REGULATIONS**

1. Citation
2. Interpretation
3. Application
4. Margin of solvency
5. Prescribed capital requirement
6. Margin of solvency for segregated portfolio
7. Minimum capital requirement
8. Requirement for higher level of capital
9. Requirement for solvency in excess of prescribed capital requirement
10. Capital and solvency return

Schedule 1: Prescribed Capital Requirement and Minimum Capital Requirement

Schedule 2: Capital Requirement Template

**INSURANCE (CAPITAL AND SOLVENCY)(CLASSES B, C AND D INSURERS) REGULATIONS**

**(2018 Revision)**

Citation

1. These Regulations may be cited as the Insurance (Capital and Solvency) (Classes B, C, and D Insurers) Regulations (2018 Revision).

Interpretation

2. In these Regulations -

"admissible assets" includes class 1 assets, class 2 assets, class 3 assets, class 4 assets, class 5 assets, class 6 assets, class 7 assets and class 8 assets unless otherwise approved by the Authority;

"bank grade" means bank obligations including securities issued by, loans made to, securities or loans guaranteed by, and accounts receivable from, any deposit taking institution;

"capital" means those amounts shown in shareholder equity or equivalent section of the insurer balance sheet;

"catastrophe risk" means the gross modelled loss for all risk associated with a 1 in 100 year event and a 1 in 10 year event;

"class 1 assets" means -

(a) cash and cash equivalents including time deposits and money market funds rated AA or higher;
(b) investment grade obligations of government or central banks rated AA or above;
(c) incoming irrevocable letters of credit where acceptable by the Authority;
(d) loans or notes receivable where supported by irrevocable letters of credit acceptable by the Authority;
(e) income tax receivables; or
(f) instalment premiums not yet due;

"class 2 assets" means -

(a) high investment grade bonds or paper rated AA or higher (or equivalent);

(b) exchange rate derivative contracts, designated and accounted for as hedging, with a maturity of one year or less and interest rate derivative contracts, designated and accounted for hedging, regardless of the maturity date;
(c) receivables from insurers or highly rated reinsurers;
(d) unearned premiums recoverable from insurers or highly rated reinsurers;
(e) unpaid claims and adjustment expenses recoverable from insurers or highly rated reinsurers outstanding for less than one year; or
(f) gold and other commodities acceptable to the Authority;

"class 3 assets" means -

(a) bonds, and debentures (including commercial paper) rated investment or bank grade, that mature or are redeemable in less than one year;
(b) accounts receivable outstanding ninety days or less from agents brokers, subsidiaries and policyholders, including installment premiums and other receivables;
(c) investment income due and accrued; or
(d) unpaid claims and adjustment expenses recoverable from licensed insurers or highly rated reinsurers, outstanding for over twelve months;

"class 4 assets" means -

(a) term deposits, bonds, and debentures (including commercial paper) rated investment or bank grade, that mature or are redeemable in one year or more;
(b) investment grade bonds or paper rated A (or equivalent); or
(c) receivables and recoverables for medium rated reinsurers outstanding for less than twelve months;

"class 5 assets" means -

(a) investment grade bonds or paper rated BBB;
(b) investment grade obligations of government or central banks rated BBB
(c) related party loans not yet called for; or
(d) receivables and recoverables for medium rated reinsurers outstanding for twelve months or more;

"class 6 assets" means -

(a) mortgage-backed securities rated A or higher;
(b) common shares;

(c) exchange traded funds
(d) exchange traded derivatives
(e) non-cumulative preference shares;
(f) investments in collective investment schemes, unit trusts, hedge funds, mutual funds or other similar assets; or
(g) real estate;

"class 7 assets" means -

(a) accounts receivable outstanding over ninety days, from agents, brokers, subsidiaries, associates and policyholders, including installment, premiums and other receivables;
(b) other recoverables including salvage and subrogation on unpaid claims;
(c) residential mortgages;
(d) cumulative preferred shares;
(e) unlisted equity securities;
(f) private equity funds;
(g) limited partnerships;
(h) mortgage-backed securities rated lower than A; or
(i) commercial mortgages;

"class 8 assets" means -

(a) deferred policy acquisition expenses;
(b) commissions, net of an adjustment for unearned commissions (net value) and if the net value is negative, report zero;
(c) other intangible and nonfinancial assets up to a limit of one per cent of total assets and for this purpose any excess over the limit is included in the amount deducted from capital available;
(d) other loans; or
(e) term deposits bonds and debentures (including commercial paper) rated not-investment grade, that mature or are redeemable in one year or more;

"filing date" means the date on which an insurer is required to submit the annual return required in the Law;

"government grade" means government obligations including securities issued by, loans made to, or securities or loans guaranteed by, and accounts receivable from the government of a country rated A or equivalent or higher in the latest rating issued by a recognised rating agency or other rating agency approved by the Authority;

"gross premium written" means total written premiums prior to any deductions;

"highly rated reinsurer" means reinsurance in which the counterparty is rated A- or higher or equivalent in the latest rating of a recognised rating agency or as approved by the Authority;

"investment grade" means a security (excluding a security that is included in the government or bank grades) with a rating of, or in excess of, grade BBB (or equivalent);

"medium rated reinsurer" means reinsurance in which the counterparty is rated BBB or higher or equivalent in the latest rating of a recognised rating agency or as approved by the Authority;

"minimum capital requirement" means the minimum capital that an insurer must maintain in order to operate in accordance with the Law as set out in Schedule 1;

"net written premium" means gross premium written, less reinsurance premium ceded;

"net earned premium" means net written premium applicable to the expired part of the policy period or reinsurance agreement period;

"not-investment grade" means any item not included in government grade, bank grade or investment grade;

"prescribed capital requirement" means the total risk based capital that an insurer must maintain in order to operate in a safe and sound manner as set out in Schedule 1;

"recognised rating agency" means A.M Best Company, Fitch, Moody's, Standard and Poor's and any other agency approved by the Authority;

"reinsurance premium ceded" means the premium ceded to reinsurers; and

"unearned premium reserve" means an insurer's liability for its unearned premium as of any given valuation date.

Application

3. These Regulations apply to class B insurers, class C insurers and class D insurers.

Margin of solvency

4. For the purposes of the definition of "margin of solvency" in section 2(1) of the Law -

(a) assets are prescribed as admissible assets; and

(b) liabilities are prescribed as liabilities, including minority interest, calculated and valued on the basis required by the accounting standards in accordance with which the insurer's financial statements are prepared and shall include all liabilities arising out of its contracts of insurance.

Prescribed capital requirement

Schedule 1

5. (1) For the purposes of section 8(2)(a) of the Law, the minimum margin of solvency for each licence class is stipulated as the prescribed capital requirement, as set out in Schedule 1.

(2) As an alternative to the prescribed capital requirement in Schedule 1, a class B(iii) or class D insurer may choose to use its own internal capital model subject to the approval of the Authority and for the purposes of this regulation, this will be deemed to be the prescribed capital requirement.

Margin of solvency for segregated portfolio

6. For the purposes of section 8(4)(a) of the Law, the margin of solvency in respect of a segregated portfolio is met where -

(a) the segregated portfolio will be able to satisfy its liabilities in respect of, or attributable to, that particular segregated portfolio as they become due in the ordinary course of its business; and

(b) the assets representing the share capital and reserves attributable to the segregated portfolio plus all other assets attributable to or held within the segregated portfolio, including incoming letters of credit, exceed the liabilities in respect of or attributable to that particular segregated portfolio.

Minimum capital requirement

Schedule 1

7. (1) For the purposes of sections 4(5)(f) and 8(2)(c) of the Law, capital is prescribed as the minimum capital requirement and for each licence class shall be as set out in Schedule 1.

Schedule 2

(2) At each filing date a class B, class C or class D insurer shall calculate and record the minimum capital requirement and prescribed capital requirement, and if required the enhanced capital requirement, in the form prescribed in Schedule 2.

(2A) Notwithstanding the amount set out in Schedule 1, the Authority may, in relation to an application for a class D insurer licence, prescribe that the applicant satisfies a reduced minimum capital requirement on such terms and conditions as the Authority may consider appropriate and shall set out the requirement to the applicant in writing.

(2B) The prescribed reduction in minimum capital requirement referred to in regulation 7(2A) shall be the prescribed level for the respective applicant.

Requirement for higher level of capital

8. Notwithstanding the amounts prescribed, the Authority may prescribe that a class B insurer, class C insurer or class D insurer should maintain a higher level of capital based on risk factors specific to that class B insurer, class C insurer or class D insurer and the Authority may exclude from the calculations assets that the Authority deems inappropriate.

Requirement for solvency in excess of prescribed capital requirement

9. (1) Unless otherwise approved by the Authority, a Class B insurer, Class C insurer or Class D insurer shall keep solvency equal to or in excess of the total prescribed capital requirement.

(2) Where the capital of a licensee falls below the prescribed capital requirement but is greater than minimum capital requirement the licensee shall meet with the Authority and present a remedial action plan to the Authority.

(3) Where the capital of a licensee falls below the minimum capital requirement the Authority may consider regulatory actions available.

Capital and solvency return

10. (1) An insurer shall, on or before its filing date, furnish the Authority with the insurer's capital and solvency return.

(2) An insurer shall keep a copy of its capital and solvency return at its principal office for a period of five years beginning with its filing date, and shall produce it to the Authority if so directed by it on or before a date specified in the direction.

SCHEDULE 1

(Regulations 5 and 7)

PRESCRIBED CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

| **Class of Insurance** | **Minimum Capital Requirement ("MCR")** | **Prescribed Capital Requirement ("PCR")** |
|---|---|---|
| Class B(i) | General: US$100,000<br><br>Long-term: US$200,000<br><br>Composite: US$300,000 | General: PCR = MCR<br><br>Long-term: PCR = MCR<br><br>Composite: PCR = MCR |
| Class B(ii) | General: US$150,000<br><br>Long-term: US$300,000<br><br>Composite: US$450,000 | General:<br>• 10% of Net Earned Premium ("NEP") to first US$5,000,000<br>• 5% of additional NEP up to US$20,000,000<br>• 2.5% of additional NEP in excess of US$20,000,000<br><br>Long term: PCR = MCR<br><br>Composite: amount required to support the general business plus MCR |
| Class B(iii) | General: US$200,000<br><br>Long-term: US$400,000 | General:<br>• 15% of NEP to first US$5,000,000<br>• 7.5% of additional NEP up to US$20,000,000<br>• 5% of additional NEP in excess |

| | | |
|---|---|---|
| | Composite: US$600,000 | of US$20,000,000<br><br>Long-term: PCR = MCR<br><br>Composite: amount required to support the general business plus MCR |
| Class C | General: US$500<br><br>Long-term: US$500<br><br>Composite: US$500 | General: PCR = MCR<br><br>Long-term: PCR = MCR<br><br>Composite: PCR = MCR |
| Class D | General: US$50,000,000<br><br>Long-term: US$50, 000,000<br><br>Composite: US$50,000,000 | Calculated as 100% of total of:<br>$C_{premium}$ (except catastrophe risk):<br>Non-life Premiums: 15.0% of Net Written Premiums<br>Life Premiums: 15.0% of Net Written Premiums<br>$C_{reserve}$:<br>Non-life Reserves: 10.0% of Gross Non-life Reserves<br>Life Reserves: 5.0% of Gross Life Reserves<br>$C_{asset}$:<br>Class 1 assets. 0.0%<br>Class 2 assets. 0.5%<br>Class 3 assets. 2.0%<br>Class 4 assets. 4.0%<br>Class 5 assets. 5.0%<br>Class 6 assets. 10%<br>Class 7 assets. 15%<br>Class 8 assets. 35%<br><br>$C_{reinsurance}$:<br>5.0% of Total Ceded Unearned Premium Reserve<br>$C_{catastrophe}$: |

| | | |
|---|---|---|
| | | 20% of a 1 in 100 year event; and<br>100% of a 1 in 10 year event;<br><br>**Important**<br>In the event that a Company has reinsurance recoveries related to assumed reserves, a reduction to the $C_{reserve}$ will be allowed up to 100% of the any reinsurance recoveries if such recoveries are secured by letters of credit else a reduction of 95% for collateral approved by the Authority else a reduction of 90% if the recovery is from highly rated reinsurers else 50% for all other forms of reinsurance.<br><br>In the event that a Company has ceded unearned premium reserves, a reduction to the $C_{reinsurance}$ will be allowed up to 100% of the any ceded unearned premium reserves if such recoveries are secured by letters of credit else a reduction of 95% for collateral approved by the Authority else a reduction of 90% if the recovery is from highly rated reinsurers else 50% for all other forms of reinsurance.<br><br>In the event that a Company has ceded catastrophe risk, a reduction to the $C_{catastrophe}$ will be allowed up to 100% of the any reinsurance recoveries if such recoveries are secured by letters of credit else a reduction of 95% for collateral approved by the Authority else a reduction of 90% if the recovery is from highly rated reinsurers else 50% for all other forms of reinsurance. |

SCHEDULE 2

(Regulation 7)

CAPITAL REQUIREMENT TEMPLATE

For CLASS B(i), B(ii), B(iii), C and D

| Capital | | ($'000) |
|---|---|---|
| Capital Required for (where applicable to the Class of business): | | |
| Total Prescribed Capital Requirement from Regulation or Total Prescribed Capital Requirement from an Internal Model (PCR) | A. | |
| Total Minimum Capital Requirement (MCR) | B. | |
| Total Capital Available | C. | |
| Capital in Excess of PCR (C. minus A.) | | |

Publication in consolidated and revised form authorised by the Cabinet this 13th day of March, 2018.

Kim Bullings
Clerk of the Cabinet

(Price $3.20)

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C/O OLD REPUBLIC RISK MANAGEMENT
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BROOKFIELD, WISCONSIN 53005
ATTN: CHIEF FINANCIAL OFFICER

APPLICANT:
MARILLAC INSURANCE COMPANY, LTD.
94 SOLARIS AVENUE, 2ND FLOOR
CAMANA BAY, GRAND CAYMAN KY1-1102
PO BOX 69

AMOUNT: USD32,121,000.00 (THIRTY TWO MILLION ONE HUNDRED TWENTY ONE THOUSAND AND NO/100 U.S. DOLLARS)

EXPIRY DATE AND PLACE: JULY 29, 2017 AT CITY NATIONAL BANK, INTERNATIONAL DEPARTMENT, LOS ANGELES, CALIFORNIA

LADIES/GENTLEMEN:

WE HEREBY ESTABLISH THIS IRREVOCABLE LETTER OF CREDIT IN FAVOR OF THE ABOVE NAMED BENEFICIARY FOR DRAWINGS UP TO THE AGGREGATE AMOUNT OF USD32,121,000.00 (THIRTY TWO MILLION ONE HUNDRED TWENTY ONE THOUSAND AND NO/100 U.S. DOLLARS) EFFECTIVE IMMEDIATELY. THIS LETTER OF CREDIT IS ISSUED, PRESENTABLE AND PAYABLE AT OUR OFFICE OF CITY NATIONAL BANK, INTERNATIONAL DEPARTMENT, 555 SOUTH FLOWER STREET, 21ST FLOOR, LOS ANGELES, CA 90071 AND EXPIRES WITH OUR CLOSE OF BUSINESS ON JULY 29, 2017.

THE TERM BENEFICIARY INCLUDES ANY SUCCESSOR BY OPERATION OF LAW OF THE NAMED BENEFICIARY INCLUDING, WITHOUT LIMITATION, ANY LIQUIDATOR, REHABILITATOR, RECEIVER OR CONSERVATOR.

CITY NATIONAL BANK
The way up.

City National Bank
555 S. Flower Street, 21st Floor
Los Angeles, CA 90071
Swift Address: CINAUS6L

WE HEREBY UNDERTAKE TO PROMPTLY HONOR YOUR SIGHT DRAFT(S) DRAWN ON US, INDICATING OUR LETTER OF CREDIT NUMBER ISB00001823, FOR ALL OR ANY PART OF THIS LETTER OF CREDIT IF PRESENTED AT OUR OFFICE SPECIFIED IN PARAGRAPH ONE ON OR BEFORE THE EXPIRY DATE OR ANY AUTOMATICALLY EXTENDED EXPIRY DATE.

EXCEPT AS EXPRESSLY STATED HEREIN, THIS UNDERTAKING IS NOT SUBJECT TO ANY AGREEMENT, CONDITION OR QUALIFICATION. OUR OBLIGATION UNDER THIS LETTER OF CREDIT IS THE INDIVIDUAL OBLIGATION OF CITY NATIONAL BANK AND IN NO WAY CONTINGENT UPON REIMBURSEMENT WITH RESPECT THERETO.

IT IS A CONDITION OF THIS LETTER OF CREDIT THAT IT SHALL BE DEEMED AUTOMATICALLY EXTENDED WITHOUT AMENDMENT FOR AN ADDITIONAL PERIOD OF ONE (1) YEAR FROM THE EXPIRY DATE HEREOF OR ANY FUTURE EXPIRY DATE, UNLESS AT LEAST THIRTY (30) DAYS PRIOR TO ANY EXPIRATION DATE, WE SHALL NOTIFY THE BENEFICIARY BY REGISTERED MAIL OR OVERNIGHT COURIER SERVICE AT THE ABOVE ADDRESS, THAT WE ELECT NOT TO EXTEND THIS LETTER OF CREDIT FOR ANY SUCH ADDITIONAL PERIOD.

THIS LETTER OF CREDIT IS SUBJECT TO AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK AND THE UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS (2007 REVISION) INTERNATIONAL CHAMBER OF COMMERCE, PUBLICATION NO. 600 AND, IN THE EVENT OF ANY CONFLICT, THE LAWS OF THE STATE OF NEW YORK WILL CONTROL. IF THIS CREDIT EXPIRES DURING AN INTERRUPTION OF BUSINESS AS DESCRIBED IN ARTICLE 36 OF SAID PUBLICATION 600, THE BANK HEREBY SPECIFICALLY AGREES TO EFFECT PAYMENT IF THIS CREDIT IS DRAWN AGAINST WITHIN 30 DAYS AFTER THE RESUMPTION OF BUSINESS.

City National Bank

JOSIE PAREDES, VICE PRESIDENT

REBECCA FORGIONE, OFFICER




**After printing this label:**
1. Use the 'Print' button on this page to print your label to your laser or inkjet printer.
2. Fold the printed page along the horizontal line.
3. Place label in shipping pouch and affix it to your shipment so that the barcode portion of the label can be read and scanned.

**Warning:** Use only the printed original label for shipping. Using a photocopy of this label for shipping purposes is fraudulent and could result in additional billing charges, along with the cancellation of your FedEx account number.
Use of this system constitutes your agreement to the service conditions in the current FedEx Service Guide, available on fedex.com. FedEx will not be responsible for any claim in excess of $100 per package, whether the result of loss, damage, delay, non-delivery, misdelivery, or misinformation, unless you declare a higher value, pay an additional charge, document your actual loss and file a timely claim. Limitations found in the current FedEx Service Guide apply. Your right to recover from FedEx for any loss, including intrinsic value of the package, loss of sales, income interest, profit, attorney's fees, costs, and other forms of damage whether direct, incidental, consequential, or special is limited to the greater of $100 or the authorized declared value. Recovery cannot exceed actual documented loss. Maximum for items of extraordinary value is $1,000, e.g. jewelry, precious metals, negotiable instruments and other items listed in our ServiceGuide. Written claims must be filed within strict time limits, see current FedEx Service Guide.

CITY NATIONAL BANK
The way up.

City National Bank
555 S. Flower Street, 21st Floor
Los Angeles, CA 90071
Swift Address: CINAUS6L

**ADVICE OF ISSUANCE**

November 28, 2016

MARILLAC INSURANCE COMPANY, LTD.
94 SOLARIS AVENUE, 2ND FLOOR
CAMANA BAY, GRAND CAYMAN KY1-1102
PO BOX 69

| | |
|---|---|
| Letter of Credit Number: | ISB00001823 |
| Applicant: | MARILLAC INSURANCE COMPANY, LTD. |
| Beneficiary: | OLD REPUBLIC INSURANCE COMPANY |
| Amount: | USD 32,121,000.00 |
| Tolerance: | |
| Additional Amount: | |

In accordance with your request, we have issued the above mentioned Letter of Credit, a copy of which is enclosed for your reference.

Please be advised we have debited your account number **075284071** for the amount of **USD 174,502.20** with value date **11/28/16** as follows:

| | | |
|---|---|---|
| IMPORT STANDBY PROCESSING FEE | USD | 300.00 |
| IMPORT STANDBY PERIODIC CHARGES (Manual) | USD | 174,167.20 |
| US OVERNIGHT COURIER | USD | 35.00 |

, IMPORT STANDBY PERIODIC CHARGES
Interest days basis 1 - 360 day
Period 11/28/16 - 7/29/17 244 Days
0.80% x 32,121,000.00 USD x 244/360 = 174,167.20 USD,

We appreciate your business and are pleased to be of service to you.

If you have any questions, please call us at (888) 309-5139.

THIS IS A COMPUTER GENERATED ADVICE, NO SIGNATURE IS REQUIRED.

CITY NATIONAL BANK
AN RBC COMPANY
350 S. Grand Ave.
Los Angeles, CA 90071
Mail Code 944-01
SWIFT Address: CINAUS6L

July 30, 2018

OLD REPUBLIC INSURANCE COMPANY
C/O OLD REPUBLIC RISK MANAGEMENT
445 SOUTH MOORLAND ROAD, SUITE 300
BROOKFIELD, WISCONSIN 53005
ATTN: CHIEF FINANCIAL OFFICER

| | |
|---|---|
| Letter of Credit Number: | ISB00001823 |
| Amendment Number: | AMD002 |
| Amendment Date: | 07/30/18 |
| Applicant | MARILLAC INSURANCE COMPANY, LTD. |

We hereby amend our Irrevocable Standby Letter of Credit issued in your favor as follows:

1. LETTER OF CREDIT AMOUNT INCREASED BY USD1,500,000.00 TO AN AGGREGATE TOTAL AMOUNT OF USD34,087,296.00 (THIRTY FOUR MILLION EIGHTY SEVEN THOUSAND TWO HUNDRED NINETY SIX AND NO/100 U.S. DOLLARS).

All other terms and conditions remain unchanged.

This amendment forms an integral part of the original Letter of Credit and must be attached thereto.

If you have any questions, please call us at (888) 309-5139.

Sincerely,

Authorized Signature
Josie Paredes

Authorized Signature
Rebecca Forgion




**After printing this label:**
1. Use the 'Print' button on this page to print your label to your laser or inkjet printer.
2. Fold the printed page along the horizontal line.
3. Place label in shipping pouch and affix it to your shipment so that the barcode portion of the label can be read and scanned.

**Warning:** Use only the printed original label for shipping. Using a photocopy of this label for shipping purposes is fraudulent and could result in additional billing charges, along with the cancellation of your FedEx account number.
Use of this system constitutes your agreement to the service conditions in the current FedEx Service Guide, available on fedex.com.FedEx will not be responsible for any claim in excess of $100 per package, whether the result of loss, damage, delay, non-delivery,misdelivery,or misinformation, unless you declare a higher value, pay an additional charge, document your actual loss and file a timely claim.Limitations found in the current FedEx Service Guide apply. Your right to recover from FedEx for any loss, including intrinsic value of the package, loss of sales, income interest, profit, attorney's fees, costs, and other forms of damage whether direct, incidental,consequential, or special is limited to the greater of $100 or the authorized declared value. Recovery cannot exceed actual documented loss.Maximum for items of extraordinary value is $1,000, e.g. jewelry, precious metals, negotiable instruments and other items listed in our ServiceGuide. Written claims must be filed within strict time limits, see current FedEx Service Guide.

# OLD REPUBLIC INSURANCE COMPANY

## WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY

Policyholder Issuing and Servicing Office:

Old Republic Risk Management, Inc.
445 South Moorland Road, Suite 300
Brookfield, WI 53005
Tel: (877) 797-3400
Fax: (262) 797-0486

OLD REPUBLIC INSURANCE GROUP

INSURANCE IS PROVIDED BY
THE COMPANY DESIGNATED ON THE INFORMATION PAGE

**IN WITNESS WHEREOF,** we have caused this policy to be executed and attested, and, if required by state law, this policy shall not be valid unless countersigned by our authorized representative.

**OLD REPUBLIC INSURANCE COMPANY**
133 Oakland Avenue
Greensburg, Pennsylvania 15601
A Stock Company

*Secretary*

*President*

# OLD REPUBLIC INSURANCE COMPANY

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY**
**INFORMATION PAGE**
**OLD REPUBLIC INSURANCE COMPANY**
(A Stock Company)
NAIC # 24147 NCCI # 11509

Producer Name and Address:
LOCKTON COMPANIES
5500 WAYZATA BLVD.
SUITE 510
MINNEAPOLIS MN 55416-1241
#0540

**1. INSURED**
The Insured and Mailing Address:
VERITY HEALTH SYSTEM OF CALIFORNIA,
(SEE NAMED INSURED ENDORSEMENT)
203 REDWOOD SHORES PARKWAY
SUITE 800
REDWOOD CITY CA 94065

Policy No. MWC 310639 00
Renewal of No. MWC 307961 00
FEIN No. 912145484
MNUI No.
NJTIN
Interstate/Intrastate Risk I.D. No. 364626

Email:

Other Workplaces not shown above: **On File With Company**

Insured is: CORPORATION

**2. POLICY PERIOD**
The Policy Period is from 07-01-2017 to 07-01-2018 12:01 AM at the insured's mailing address.

**3. COVERAGE**
A. Workers Compensation Insurance: Part One of the policy applies to the Workers Compensation Law of the states listed here:
CA

B. Employers Liability Insurance: Part Two of the policy applies to work in each state listed in item 3.A. The limits of our liability under Part Two are:

| | | | |
|---|---|---|---|
| Bodily Injury by Accident | $ | 1,000,000 | each accident |
| Bodily Injury by Disease | $ | 1,000,000 | policy limit |
| Bodily Injury by Disease | $ | 1,000,000 | each employee |

C. Other States Insurance: Part Three of the policy applies to the states, if any, listed here: All states Except those listed in 3A and
ND OH PR VI WA WY

D. This policy includes these endorsements and schedules: **See Forms Index**

**4. PREMIUM**
The premium for this policy will be determined by our Manuals of Rules, Classifications, Rates and Rating Plans. All information required below is subject to verification and change by audit.

| CLASSIFICATIONS | CODE NO. | PREMIUM BASIS TOTAL ESTIMATED ANNUAL REMUNERATION | RATE PER $100 OF REMUNERATION | ESTIMATED ANNUAL PREMIUM |
|---|---|---|---|---|
| SEE THE EXTENSION OF INFORMATION PAGE | | | | |
| | | | Special Assessments, Surcharges And Policy Fees $ | 152,151 |
| | | | Total Estimated Annual Premium $ | 1,646,777 |
| | | | Total Payable $ | 1,798,928 |
| | | | Deposit Premium $ | |
| | | | Minimum Premium $ | 825 |

Premium adjustments will be made as indicated: **ANNUAL**
Issued At: Old Republic Risk Management, Inc.
445 South Moorland Rd., Suite 300
Brookfield, WI 53005
(877) 797-3400

Issued On: 07-21-17

Countersigned: _____
Authorized Representative Date

WC 00 00 01 C (01/16) (WI) WC 00 00 01 A
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Policy Number

MWC 310639 00

**SCHEDULE OF NAMED INSURED(S)**

**OLD REPUBLIC INSURANCE COMPANY**

Named Insured **VERITY HEALTH SYSTEM OF**

Effective Date: 07-01-2017
12:01 A.M., Standard Time

Agent Name **LOCKTON COMPANIES**

Agent No. **540**

WC 00 00 01 C (cont.)

**THE NAMED INSURED ON FORM WC 00 00 01 C IS AMENDED TO READ:**

**VERITY HEALTH SYSTEM OF**
**CALIFORNIA, INC.**
**VERITY BUSINESS SERVICES**
**O'CONNOR HOSPITAL**
**SAINT LOUISE REGIONAL HOSPITAL**
**ST. VINCENT MEDICAL CENTER**
**ST. FRANCIS MEDICAL CENTER**
**SETON MEDICAL CENTER**
**SETON MEDICAL CENTER COASTSIDE**
**VERITY MEDICAL FOUNDATION**

# OLD REPUBLIC INSURANCE COMPANY

## FORMS INDEX

Insured: VERITY HEALTH SYSTEM OF
Policy Number: MWC 310639 00
Producer: LOCKTON COMPANIES

Effective Date: 07-01-2017
Expiration Date: 07-01-2018

**FORMS MADE A PART OF THIS POLICY AT ISSUANCE:**

| Form Number | Edition | Description |
|---|---|---|
| WC 99 06 42 | 01-16 | WC AND EMPLOYERS LIABILITY JACKET |
| WC 00 00 01 C | 01-16 | WC INFORMATION PAGE |
| WC 99 06 00 | 06-04 | SCHEDULE OF FORMS AND ENDTS |
| WC 99 06 06 | 06-04 | SCHEDULE OF LOCATIONS |
| WC 00 00 00 C | 01-15 | INSURANCE POLICY |
| WC 99 06 05 | 06-04 | EXTENSION OF INFORMATION PAGE(S) |
| A | | UNINTENTIONAL ERRORS AND OMISSIONS |
| B | | NOTICE OF OCCURRENCE |
| C | | KNOWLEDGE OF OCCURRENCE |
| WC 99 03 00 | 06-04 | EARLIER NOTICE OF CANCELATION |
| WC 99 03 04 A | 04-15 | FOREIGN VOLUNTARY AND EL COVERAGE |
| PC 009 | 05-10 | DESIGNATED ENTITY-NOTICE OF CANCELATION |
| WC 00 01 01 A | 04-92 | DEFENSE BASE ACT COVERAGE ENDT |
| WC 00 01 09 C | 01-15 | OUTER CONTINENTAL SHELF LANDS ACT COV |
| WC 00 02 01 B | 01-15 | MARITIME COVERAGE ENDT |
| WC 00 02 03 | 04-84 | VOLUNTARY COMP MARITIME COVERAGE ENDT |
| WC 00 03 01 A | 02-89 | ALTERNATE EMPLOYER ENDT |
| WC 00 03 03 C | 10-04 | EMPLOYERS LIABILITY COVERAGE ENDT |
| WC 00 03 19 | 04-91 | EMPLOYEE LEASING CLIENT ENDT |
| WC 00 04 06 | 07-84 | PREMIUM DISCOUNT ENDT |
| WC 00 04 19 | 01-01 | PREMIUM DUE DATE ENDORSEMENT |
| WC 00 04 21 D | 01-15 | CATASTROPHE (OTHER THAN CERT ACTS) ENDT |
| WC 00 04 22 B | 01-15 | TERRORISM RISK PGM REAUTH ACT DISCL ENDT |
| WC 99 06 04 | 06-04 | LARGE DEDUCTIBLE /LOSS REIM SCHEDULE |
| WC 99 06 10 | 09-04 | CA WC & EL DED PLAN W/OPT AGG INCL ALAE |
| WC 04 01 01 A | 04-92 | CA LONGSHORE & HARBOR WC ACT COVG ENDT |
| WC 04 03 01 C | 10-14 | CA POLICY AMENDATORY ENDORSEMENT |
| WC 04 03 05 | 01-85 | CA VOL COMP & EMPLOYERS LIAB COVG ENDT |
| WC 04 03 06 | 04-84 | CA WAIVER OF OUR RIGHT TO RECOVER |
| WC 04 03 10 | 01-95 | CA DUTY TO DEFEND |
| WC 04 03 60 B | 01-15 | CA EMPLOYERS' LIAB COV AMENDATORY ENDT |
| WC 04 06 01 A | 12-93 | CA CANCELATION ENDT |
| WC 95 06 00 A | 05-14 | PROGRAM AGREEMENT ENDORSEMENT |
| WC 95 06 01 | 05-14 | APPENDIX A - LETTER OF CREDIT |

# OLD REPUBLIC INSURANCE COMPANY

## FORMS INDEX

Insured: VERITY HEALTH SYSTEM OF
Policy Number: MWC 310639 00
Producer: LOCKTON COMPANIES

Effective Date: 07-01-2017
Expiration Date: 07-01-2018

**FORMS MADE A PART OF THIS POLICY AT ISSUANCE:**

| Form Number | Edition | Description |
|---|---|---|
| WC 95 06 02 | 05-14 | PROGRAM AGREEMENT SCHEDULE A |
| WC 95 06 03 | 05-14 | PROGRAM AGREEMENT SCHEDULE B CO DED PREM |
| WC 95 06 04 | 05-14 | PROGRAM AGREEMENT SCHEDULE C PREM PYMT |
| WC 34 03 01 C | 03-10 | OH EMPLOYERS LIABILITY COVERAGE ENDT |

# OLD REPUBLIC INSURANCE COMPANY

WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY
EXTENSION OF INFORMATION PAGE

Insured: **VERITY HEALTH SYSTEM OF**
Policy Number: **MWC 310639 00**
Producer: **LOCKTON COMPANIES**
State: **CALIFORNIA**

Effective Date: **07-01-2017**
Expiration Date: **07-01-2018**
Bureau ID: **364626**

Location(s)

**VERITY HEALTH SYSTEM OF CALIFORNIA, INC.**
**NO FIXED ADDRESS**
**CA**
**FEIN: 91-2145484**
**NAIC Code: 622110**

**VERITY BUSINESS SERVICES**
**NO FIXED ADDRESS**
**CA**
**FEIN: 51-0650139**
**NAIC Code: 622110**

**O'CONNOR HOSPITAL**
**NO FIXED ADDRESS**
**CA**
**FEIN: 91-2154436**
**NAIC Code: 622110**

**SAINT LOUISE REGIONAL HOSPITAL**
**NO FIXED ADDRESS**
**CA**
**FEIN: 91-2154437**
**NAIC Code: 622110**

**ST. VINCENT MEDICAL CENTER**
**NO FIXED ADDRESS**
**CA**
**FEIN: 91-2154438**
**NAIC Code: 622110**

# OLD REPUBLIC INSURANCE COMPANY

WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY
EXTENSION OF INFORMATION PAGE

Insured: **VERITY HEALTH SYSTEM OF**
Policy Number: **MWC 310639 00**
Producer: **LOCKTON COMPANIES**
State: **CALIFORNIA**

Effective Date: **07-01-2017**
Expiration Date: **07-01-2018**
Bureau ID: **364626**

Location(s)

**ST. FRANCIS MEDICAL CENTER**
**NO FIXED ADDRESS**
**CA**
**FEIN: 91-2154439**
**NAIC Code: 622110**

**SETON MEDICAL CENTER**
**NO FIXED ADDRESS**
**CA**
**FEIN: 91-2154441**
**NAIC Code: 622110**

**SETON MEDICAL CENTER COASTSIDE**
**NO FIXED ADDRESS**
**CA**
**FEIN: 91-2154441**
**NAIC Code: 622110**

**VERITY MEDICAL FOUNDATION**
**NO FIXED ADDRESS**
**CA**
**FEIN: 45-3691852**
**NAIC Code: 622110**

# WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY

In return for the payment of the premium and subject to all terms of this policy, we agree with you as follows:

## GENERAL SECTION

A. **The Policy**

This policy includes at its effective date the Information Page and all endorsements and schedules listed there. It is a contract of insurance between you (the employer named in Item 1 of the Information Page) and us (the insurer named on the Information Page). The only agreements relating to this insurance are stated in this policy. The terms of this policy may not be changed or waived except by endorsement issued by us to be part of this policy.

B. **Who is Insured**

You are insured if you are an employer named in Item 1 of the Information Page. If that employer is a partnership, and if you are one of its partners, you are insured, but only in your capacity as an employer of the partnership's employees.

C. **Workers Compensation Law**

Workers Compensation Law means the workers or workmen's compensation law and occupational disease law of each state or territory named in Item 3.A. of the Information Page. It includes any amendments to that law which are in effect during the policy period. It does not include any federal workers or workmen's compensation law, any federal occupational disease law or the provisions of any law that provide nonoccupational disability benefits.

D. **State**

State means any state of the United States of America, and the District of Columbia.

E. **Locations**

This policy covers all of your workplaces listed in Items 1 or 4 of the Information Page; and it covers all other workplaces in Item 3.A. states unless you have other insurance or are self-insured for such workplaces.

## PART ONE
## WORKERS COMPENSATION INSURANCE

A. **How This Insurance Applies**

This workers compensation insurance applies to bodily injury by accident or bodily injury by disease. Bodily injury includes resulting death.

1. Bodily injury by accident must occur during the policy period.
2. Bodily injury by disease must be caused or aggravated by the conditions of your employment. The employee's last day of last exposure to the conditions causing or aggravating such bodily injury by disease must occur during the policy period.

B. **We Will Pay**

We will pay promptly when due the benefits required of you by the workers compensation law.

C. **We Will Defend**

We have the right and duty to defend at our expense any claim, proceeding or suit against you for benefits payable by this insurance. We have the right to investigate and settle these claims, proceedings or suits.

We have no duty to defend a claim, proceeding or suit that is not covered by this insurance.

D. **We Will Also Pay**

We will also pay these costs, in addition to other amounts payable under this insurance, as part of any claim, proceeding or suit we defend:

1. reasonable expenses incurred at our request, but not loss of earnings;
2. premiums for bonds to release attachments and for appeal bonds in bond amounts up to the amount payable under this insurance;
3. litigation costs taxed against you;
4. interest on a judgment as required by law until we offer the amount due under this insurance; and
5. expenses we incur.

E. **Other Insurance**

We will not pay more than our share of benefits and costs covered by this insurance and other



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insurance or self-insurance. Subject to any limits of liability that may apply, all shares will be equal until the loss is paid. If any insurance or self-insurance is exhausted, the shares of all remaining insurance will be equal until the loss is paid.

F. **Payments You Must Make**

You are responsible for any payments in excess of the benefits regularly provided by the workers compensation law including those required because:

1. of your serious and willful misconduct;
2. you knowingly employ an employee in violation of law;
3. you fail to comply with a health or safety law or regulation; or
4. you discharge, coerce or otherwise discriminate against any employee in violation of the workers compensation law.

If we make any payments in excess of the benefits regularly provided by the workers compensation law on your behalf, you will reimburse us promptly.

G. **Recovery From Others**

We have your rights, and the rights of persons entitled to the benefits of this insurance, to recover our payments from anyone liable for the injury. You will do everything necessary to protect those rights for us and to help us enforce them.

H. **Statutory Provisions**

These statements apply where they are required by law.

1. As between an injured worker and us, we have notice of the injury when you have notice.
2. Your default or the bankruptcy or insolvency of you or your estate will not relieve us of our duties under this insurance after an injury occurs.
3. We are directly and primarily liable to any person entitled to the benefits payable by this insurance. Those persons may enforce our duties; so may an agency authorized by law. Enforcement may be against us or against you and us.
4. Jurisdiction over you is jurisdiction over us for purposes of the workers compensation law. We are bound by decisions against you under that law, subject to the provisions of this policy that are not in conflict with that law.
5. This insurance conforms to the parts of the workers compensation law that apply to:
   a. benefits payable by this insurance;
   b. special taxes, payments into security or other special funds, and assessments payable by us under that law.
6. Terms of this insurance that conflict with the workers compensation law are changed by this statement to conform to that law.

Nothing in these paragraphs relieves you of your duties under this policy.

## PART TWO
## EMPLOYERS LIABILITY INSURANCE

A. **How This Insurance Applies**

This employers liability insurance applies to bodily injury by accident or bodily injury by disease. Bodily injury includes resulting death.

1. The bodily injury must arise out of and in the course of the injured employee's employment by you.
2. The employment must be necessary or incidental to your work in a state or territory listed in Item 3.A. of the Information Page.
3. Bodily injury by accident must occur during the policy period.
4. Bodily injury by disease must be caused or aggravated by the conditions of your employment. The employee's last day of last exposure to the conditions causing or aggravating such bodily injury by disease must occur during the policy period.
5. If you are sued, the original suit and any related legal actions for damages for bodily injury by accident or by disease must be brought in the United States of America, its territories or possessions, or Canada.

B. **We Will Pay**

We will pay all sums that you legally must pay as damages because of bodily injury to your employees, provided the bodily injury is covered by this Employers Liability Insurance.

The damages we will pay, where recovery is permitted by law, include damages:

1. For which you are liable to a third party by reason of a claim or suit against you by that third party to recover the damages claimed against



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such third party as a result of injury to your employee;

2. For care and loss of services; and
3. For consequential bodily injury to a spouse, child, parent, brother or sister of the injured employee; provided that these damages are the direct consequence of bodily injury that arises out of and in the course of the injured employee's employment by you; and
4. Because of bodily injury to your employee that arises out of and in the course of employment, claimed against you in a capacity other than as employer.

C. **Exclusions**

This insurance does not cover:

1. Liability assumed under a contract. This exclusion does not apply to a warranty that your work will be done in a workmanlike manner;
2. Punitive or exemplary damages because of bodily injury to an employee employed in violation of law;
3. Bodily injury to an employee while employed in violation of law with your actual knowledge or the actual knowledge of any of your executive officers;
4. Any obligation imposed by a workers compensation, occupational disease, unemployment compensation, or disability benefits law, or any similar law;
5. Bodily injury intentionally caused or aggravated by you;
6. Bodily injury occurring outside the United States of America, its territories or possessions, and Canada. This exclusion does not apply to bodily injury to a citizen or resident of the United States of America or Canada who is temporarily outside these countries;
7. Damages arising out of coercion, criticism, demotion, evaluation, reassignment, discipline, defamation, harassment, humiliation, discrimination against or termination of any employee, or any personnel practices, policies, acts or omissions;
8. Bodily injury to any person in work subject to the Longshore and Harbor Workers' Compensation Act (33 U.S.C. Sections 901 et seq.), the Nonappropriated Fund Instrumentalities Act (5 U.S.C. Sections 8171 et seq.), the Outer Continental Shelf Lands Act (43 U.S.C. Sections 1331 et seq.), the Defense Base Act (42 U.S.C. Sections 1651–1654), the Federal Mine Safety and Health Act (30 U.S.C. Sections 801 et seq. and 901–944), any other federal workers or workmen's compensation law or other federal occupational disease law, or any amendments to these laws;
9. Bodily injury to any person in work subject to the Federal Employers' Liability Act (45 U.S.C. Sections 51 et seq.), any other federal laws obligating an employer to pay damages to an employee due to bodily injury arising out of or in the course of employment, or any amendments to those laws;
10. Bodily injury to a master or member of the crew of any vessel, and does not cover punitive damages related to your duty or obligation to provide transportation, wages, maintenance, and cure under any applicable maritime law;
11. Fines or penalties imposed for violation of federal or state law; and
12. Damages payable under the Migrant and Seasonal Agricultural Worker Protection Act (29 U.S.C. Sections 1801 et seq.) and under any other federal law awarding damages for violation of those laws or regulations issued thereunder, and any amendments to those laws.

D. **We Will Defend**

We have the right and duty to defend, at our expense, any claim, proceeding or suit against you for damages payable by this insurance. We have the right to investigate and settle these claims, proceedings and suits.

We have no duty to defend a claim, proceeding or suit that is not covered by this insurance. We have no duty to defend or continue defending after we have paid our applicable limit of liability under this insurance.

E. **We Will Also Pay**

We will also pay these costs, in addition to other amounts payable under this insurance, as part of any claim, proceeding, or suit we defend:

1. Reasonable expenses incurred at our request, but not loss of earnings;
2. Premiums for bonds to release attachments and for appeal bonds in bond amounts up to the limit of our liability under this insurance;
3. Litigation costs taxed against you;
4. Interest on a judgment as required by law until we offer the amount due under this insurance; and
5. Expenses we incur.



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F. **Other Insurance**

We will not pay more than our share of damages and costs covered by this insurance and other insurance or self-insurance. Subject to any limits of liability that apply, all shares will be equal until the loss is paid. If any insurance or self-insurance is exhausted, the shares of all remaining insurance and self-insurance will be equal until the loss is paid.

G. **Limits of Liability**

Our liability to pay for damages is limited. Our limits of liability are shown in Item 3.B. of the Information Page. They apply as explained below.

1. Bodily Injury by Accident. The limit shown for "bodily injury by accident—each accident" is the most we will pay for all damages covered by this insurance because of bodily injury to one or more employees in any one accident.

   A disease is not bodily injury by accident unless it results directly from bodily injury by accident.
2. Bodily Injury by Disease. The limit shown for "bodily injury by disease—policy limit" is the most we will pay for all damages covered by this insurance and arising out of bodily injury by disease, regardless of the number of employees who sustain bodily injury by disease. The limit shown for "bodily injury by disease—each employee" is the most we will pay for all damages because of bodily injury by disease to any one employee.

   Bodily injury by disease does not include disease that results directly from a bodily injury by accident.
3. We will not pay any claims for damages after we have paid the applicable limit of our liability under this insurance.

H. **Recovery From Others**

We have your rights to recover our payment from anyone liable for an injury covered by this insurance. You will do everything necessary to protect those rights for us and to help us enforce them.

I. **Actions Against Us**

There will be no right of action against us under this insurance unless:

1. You have complied with all the terms of this policy; and
2. The amount you owe has been determined with our consent or by actual trial and final judgment.

This insurance does not give anyone the right to add us as a defendant in an action against you to determine your liability. The bankruptcy or insolvency of you or your estate will not relieve us of our obligations under this Part.

## PART THREE
## OTHER STATES INSURANCE

A. **How This Insurance Applies**

1. This other states insurance applies only if one or more states are shown in Item 3.C. of the Information Page.
2. If you begin work in any one of those states after the effective date of this policy and are not insured or are not self-insured for such work, all provisions of the policy will apply as though that state were listed in Item 3.A. of the Information Page.
3. We will reimburse you for the benefits required by the workers compensation law of that state if we are not permitted to pay the benefits directly to persons entitled to them.
4. If you have work on the effective date of this policy in any state not listed in Item 3.A. of the Information Page, coverage will not be afforded for that state unless we are notified within thirty days.

B. **Notice**

Tell us at once if you begin work in any state listed in Item 3.C. of the Information Page.

## PART FOUR
## YOUR DUTIES IF INJURY OCCURS

Tell us at once if injury occurs that may be covered by this policy. Your other duties are listed here.

1. Provide for immediate medical and other services required by the workers compensation law.
2. Give us or our agent the names and addresses of the injured persons and of witnesses, and other information we may need.
3. Promptly give us all notices, demands and legal



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papers related to the injury, claim, proceeding or suit.

4. Cooperate with us and assist us, as we may request, in the investigation, settlement or defense of any claim, proceeding or suit.
5. Do nothing after an injury occurs that would interfere with our right to recover from others.
6. Do not voluntarily make payments, assume obligations or incur expenses, except at your own cost.

## PART FIVE
## PREMIUM

A. **Our Manuals**

All premium for this policy will be determined by our manuals of rules, rates, rating plans and classifications. We may change our manuals and apply the changes to this policy if authorized by law or a governmental agency regulating this insurance.

B. **Classifications**

Item 4 of the Information Page shows the rate and premium basis for certain business or work classifications. These classifications were assigned based on an estimate of the exposures you would have during the policy period. If your actual exposures are not properly described by those classifications, we will assign proper classifications, rates and premium basis by endorsement to this policy.

C. **Remuneration**

Premium for each work classification is determined by multiplying a rate times a premium basis. Remuneration is the most common premium basis. This premium basis includes payroll and all other remuneration paid or payable during the policy period for the services of:

1. all your officers and employees engaged in work covered by this policy; and
2. all other persons engaged in work that could make us liable under Part One (Workers Compensation Insurance) of this policy. If you do not have payroll records for these persons, the contract price for their services and materials may be used as the premium basis. This paragraph 2 will not apply if you give us proof that the employers of these persons lawfully secured their workers compensation obligations.

D. **Premium Payments**

You will pay all premium when due. You will pay the premium even if part or all of a workers compensation law is not valid.

E. **Final Premium**

The premium shown on the Information Page, schedules, and endorsements is an estimate. The final premium will be determined after this policy ends by using the actual, not the estimated, premium basis and the proper classifications and rates that lawfully apply to the business and work covered by this policy. If the final premium is more than the premium you paid to us, you must pay us the balance. If it is less, we will refund the balance to you. The final premium will not be less than the highest minimum premium for the classifications covered by this policy.

If this policy is canceled, final premium will be determined in the following way unless our manuals provide otherwise:

1. If we cancel, final premium will be calculated pro rata based on the time this policy was in force. Final premium will not be less than the pro rata share of the minimum premium.
2. If you cancel, final premium will be more than pro rata; it will be based on the time this policy was in force, and increased by our short-rate cancelation table and procedure. Final premium will not be less than the minimum premium.

F. **Records**

You will keep records of information needed to compute premium. You will provide us with copies of those records when we ask for them.

G. **Audit**

You will let us examine and audit all your records that relate to this policy. These records include ledgers, journals, registers, vouchers, contracts, tax reports, payroll and disbursement records, and programs for storing and retrieving data. We may conduct the audits during regular business hours during the policy period and within three years after the policy period ends. Information developed by audit will be used to determine final premium. Insurance rate service organizations have the same rights we have under this provision.



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## PART SIX
## CONDITIONS

A. **Inspection**

We have the right, but are not obliged to inspect your workplaces at any time. Our inspections are not safety inspections. They relate only to the insurability of the workplaces and the premiums to be charged. We may give you reports on the conditions we find. We may also recommend changes. While they may help reduce losses, we do not undertake to perform the duty of any person to provide for the health or safety of your employees or the public. We do not warrant that your workplaces are safe or healthful or that they comply with laws, regulations, codes or standards. Insurance rate service organizations have the same rights we have under this provision.

B. **Long Term Policy**

If the policy period is longer than one year and sixteen days, all provisions of this policy will apply as though a new policy were issued on each annual anniversary that this policy is in force.

C. **Transfer of Your Rights and Duties**

Your rights or duties under this policy may not be transferred without our written consent.

If you die and we receive notice within thirty days after your death, we will cover your legal representative as insured.

D. **Cancelation**

1. You may cancel this policy. You must mail or deliver advance written notice to us stating when the cancelation is to take effect.
2. We may cancel this policy. We must mail or deliver to you not less than ten days advance written notice stating when the cancelation is to take effect. Mailing that notice to you at your mailing address shown in Item 1 of the Information Page will be sufficient to prove notice.
3. The policy period will end on the day and hour stated in the cancelation notice.
4. Any of these provisions that conflict with a law that controls the cancelation of the insurance in this policy is changed by this statement to comply with the law.

E. **Sole Representative**

The insured first named in Item 1 of the Information Page will act on behalf of all insureds to change this policy, receive return premium, and give or receive notice of cancelation.



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# OLD REPUBLIC INSURANCE COMPANY

WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY
EXTENSION OF INFORMATION PAGE

Insured: **VERITY HEALTH SYSTEM OF**
Policy Number: **MWC 310639 00**
Producer: **LOCKTON COMPANIES**
State: **CALIFORNIA**

Effective Date: **07-01-2017**
Expiration Date: **07-01-2018**
Bureau ID: **364626**

| Classification | Code No. | Premium Basis Total Estimated Annual Remuneration | Rate Per $100 of Remuneration | Estimated Annual Premium |
|---|---|---|---|---|
| 0001-01 | | | | |
| PHYSICIANS' PRACTICES AND OUTPATIENT CLINICS - ALL EMPLOYEES - INCLUDING CLERICAL OFFICE EMPLOYEES | 8834 | $ 5,244,395 | 1.61 | $ 84,435.00 |
| HOSPITALS - ALL EMPLOYEES - INCLUDING CLERICAL OFFICE EMPLOYEES AND OUTSIDE SALESPERSONS | 9043 | $ 524,987,007 | 2.53 | $ 13,282,171.00 |

# OLD REPUBLIC INSURANCE COMPANY

WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY
EXTENSION OF INFORMATION PAGE

Insured: **VERITY HEALTH SYSTEM OF**
Policy Number: **MWC 310639 00**
Producer: **LOCKTON COMPANIES**
State: **CALIFORNIA**

Effective Date: **07-01-2017**
Expiration Date: **07-01-2018**
Bureau ID: **364626**

| Classification | | Code No. | Premium Basis Total Estimated Annual Remuneration | Rate Per $100 of Remuneration | Estimated Annual Premium |
|---|---|---|---|---|---|
| TOTAL CLASS PREMIUM | | | | | $ 13,366,606.00 |
| INCREASE LIMITS | 1.028 | 9812 | | | $ 374,265.00 |
| EXPERIENCE PREMIUM | .90 | 9897 | | | $ -1,374,087.00 |
| TOTAL MODIFIED PREMIUM | | | | | $ 12,366,784.00 |
| STANDARD TOTAL | | | | | $ 12,366,784.00 |
| PREMIUM DISCOUNT | .857 | 0063 | | | $ -1,768,450.00 |
| LARGE DEDUCTIBLE | .140353 | 9964 | | | $ -9,110,826.00 |
| EXPENSE CONSTANT | | 0900 | | | $ 200.00 |
| TERRORISM | .03 | 9740 | | | $ 159,069.00 |
| CATASTROPHE (OTHER THAN CERTIFIED ACTS OF TERRORISM) | .00 | 9741 | | | $ 0.00 |
| TOTAL ESTIMATED PREMIUM | | | | | $ 1,646,777.00 |
| CIGA SURCHARGE | 1.02 | 0175 | | | $ 32,936.00 |
| CA ADMIN REVOLVING FUND ASSESS | 1.003128 | 0987 | | | $ 33,650.00 |
| CA OCC SAFETY & HEALTH FUND | 1.002305 | 0992 | | | $ 24,796.00 |
| CA FRAUD ASSESSMENT | 1.001675 | 0988 | | | $ 18,019.00 |
| CA UNINS EMPL BENEFITS ASSESS | 1.000721 | 0986 | | | $ 7,756.00 |
| CA SUBS INJ BENEFITS ASSESS | 1.001335 | 0991 | | | $ 14,361.00 |
| CA LECF ASSESSMENT | 1.001918 | 9681 | | | $ 20,633.00 |
| FINAL TOTAL | | | | | $ 1,798,928.00 |

POLICY TOTAL ESTIMATED COST $ 1,798,928.00

WC 99 06 05

# U-917 (8-89) OLD REPUBLIC INSURANCE COMPANY

## UNINTENTIONAL ERRORS AND OMISSIONS

**UNINTENTIONAL ERRORS OR OMISSIONS BY THE INSURED SHALL NOT CONSTITUTE GROUNDS FOR A DECLINATION OF COVERAGE BY US.**

FORM A

## U-917 (8-89) OLD REPUBLIC INSURANCE COMPANY

NOTICE OF OCCURRENCE

IT IS AGREED THAT FAILURE OF ANY AGENT, SERVANT OR EMPLOYEE OF THE INSURED, OTHER THAN THE OWNER, A PARTNER OF ANY PARTNERSHIP, OR AN OFFICER OF THE INSURED, TO NOTIFY THE COMPANY OF ANY OCCURRENCE OF WHICH HE HAS KNOWLEDGE SHALL NOT INVALIDATE THE INSURANCE AFFORDED BY THIS POLICY AS RESPECTS TO THE NAMED INSURED.

FORM B

## U-917 (8-89) OLD REPUBLIC INSURANCE COMPANY

### KNOWLEDGE OF OCCURRENCE

IT IS UNDERSTOOD AND AGREED THAT THE KNOWLEDGE OF OCCURRENCE BY AN AGENT, SERVANT OR EMPLOYEE OF THE INSURED SHALL NOT IN ITSELF CONSTITUTE KNOWLEDGE BY THE INSURED UNLESS AN EXECUTIVE OFFICER OF THE INSURED'S CORPORATION OR THE OWNER OR A PARTNER OF ANY PARTNERSHIP HAS RECEIVED SUCH NOTICE FROM ITS OR THEIR AGENT, SERVANT OR EMPLOYEE.

FORM C

# OLD REPUBLIC INSURANCE COMPANY

## WORKERS' COMPENSATION AND EMPLOYERS' LIABILITY INSURANCE POLICY

## EARLIER NOTICE OF CANCELATION OR NONRENEWAL PROVIDED BY US

### SCHEDULE

| Number of Days' Notice of Cancellation Non-payment of Premium | Number of Days' Notice of Cancellation Reasons Other Than Non-payment of Premium or Nonrenewal | State(s) Applicable |
|---|---|---|
| 10 | 90 | SEE ITEM 3.A. |

| Number of Days' Notice of Nonrenewal | State(s) Applicable |
|---|---|
| 90 | SEE ITEM 3.A. |

A. For any statutorily permitted reason for cancellation, the number of days required for notice of cancellation, as provided in the Cancellation Condition or as amended by an applicable state cancellation endorsement, is increased to the number of days shown in the Schedule.

B. For any statutorily permitted nonrenewal, the number of days required for notice of nonrenewal as amended by an applicable state endorsement is increased to the number of days shown in the Schedule.

# OLD REPUBLIC INSURANCE COMPANY

## WORKERS COMPENSATION AND EMPLOYERS LIABILITY

### FOREIGN VOLUNTARY COMPENSATION AND EMPLOYERS LIABILITY COVERAGE ENDORSEMENT

Please read carefully. This endorsement modifies insurance provided under the following:

WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY

This endorsement adds Foreign Voluntary Compensation Insurance to the policy to which it is attached, effective on the inception date of the policy unless a different date is indicated. State law may already provide benefits to employees working outside of the United States of America and this endorsement does not limit or reduce any benefits required by state workers compensation law.

**Section 1. Employees Covered**

A. The additional coverage provided by this endorsement applies only to employees listed in Item 1. of the Schedule of this endorsement provided they are hired within the limits of the United States of America. It provides additional coverage for the listed employees while they are traveling or temporarily residing in the country(ies) named in Item 1. of the Schedule of this endorsement. Each period of travel or temporary residence for each listed employee may be no longer than the maximum number of consecutive days shown in Item 1. of the Schedule of this endorsement.
B. This insurance does not apply to any employees you hire outside the limits of the United States of America.

**Section 2. How This Insurance Applies**

This additional coverage applies only to bodily injury by accident or to bodily injury by disease. Bodily injury includes resulting death.

A. An employee listed in Item 1. of the Schedule of this endorsement must sustain the bodily injury.
B. The bodily injury must arise out of and occur in the course of your employment in the country(ies) listed in Item 1. of the Schedule of this endorsement.
C. Bodily injury by accident must occur during the policy period.
D. The conditions of your workplace must cause or aggravate the bodily injury by disease. The employee's last day of last exposure to those conditions causing or aggravating such bodily injury must occur during the policy period.

**Section 3. Exclusions**

This endorsement amends Section C. of Part Two of the Policy by adding the following exclusions for coverage under this endorsement:

A. Bodily injury arising from any direct or indirect consequence of war, invasion, act of foreign enemy, hostilities (whether war is declared or not), civil war, rebellion, revolution, insurrection, or military or usurped power. No current or subsequent endorsement to this policy will override or waive this limitation;
B. Compensation or benefits imposed by any occupational disease, disability benefits law, plan or any similar law or plan; and
C. Bodily injury you intentionally cause or aggravate.


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**Section 4. Voluntary Workers Compensation**

This endorsement amends Section A. of Part One of the policy by adding the following coverage:
On your behalf, we will voluntarily pay an amount equal to the benefits you would be required to pay if you and the employees described in Item 1. of the Schedule were subject to the workers compensation law of the state designated in Item 1. of the Schedule of this endorsement.
We will pay those amounts to the persons who would be entitled to them under such law. If this is not possible, we will reimburse you for amounts you are required to pay under the law.

The following provisions apply to this insurance:

A. In no event will our liability under this section exceed the amount we or you would have been obligated to pay if the employment and injury had been subject to the state workers compensation law designated in Item 1. of the Schedule of this endorsement. The only exception to this is as provided for in Section 6—Repatriation Expense.

B. We have the option of requesting you to pay sums due directly to persons entitled to them on our behalf. We will reimburse you for these payments when you provide us with satisfactory proof of payment.

C. Before we are required to make any payment or reimburse you, the persons entitled or paid must:

(1) Release you and us in writing from all responsibility for the bodily injury or death;
(2) Transfer to us their right to recover from others who may be responsible for the injury or death to the extent of our payment or reimbursement; and
(3) Cooperate with us and do everything necessary to enable us to perform the right to recover from others.

If a person entitled to payment under this section refuses to accept voluntary payments offered, we may, at our discretion, withdraw the offer to pay compensation benefits. If this happens, we will notify you and the employee that we will no longer be bound by the provisions of this section.

D. Under this or any other policy we have issued to you, it is possible that the provisions for a workers compensation law, plan, or any similar law or plan may hold you or us legally liable for any injury where payments have been made or would otherwise be made under Section 4. of this endorsement. If this happens, we agree that we will make no further payments under Section 4. if Section 5. of this endorsement applies.

**Section 5. Legal Liability Under Workers Compensation Law**

A. If you are required to pay any benefits to an employee listed in Item 1. of the Schedule of this endorsement under a workers compensation or occupational disease law of the country(ies) listed in Item 1. of the Schedule of this endorsement, we will reimburse you up to, but not in excess of, the cost of benefits that would be payable under the applicable workers compensation law of the state designated in the same Schedule.

B. We will not be liable for any loss for which you had other valid and collectible insurance.

C. We assume no obligation to defend or reimburse you for any suit or proceeding against you outside of the United States of America.

D. The coverage that Section 5. affords does not cover fines or penalties imposed on you for failure to comply with the requirements of any workers compensation or occupational disease law of any country(ies) named in Item 1. of the Schedule of this endorsement.

**Section 6. Repatriation Expense**

This section only applies to coverage provided under Sections 4. and 5. of this endorsement.
Medical expenses include additional expenses of repatriation to the United States of America incurred as a result of bodily injury to the employees listed in Item 1. of the Schedule of this endorsement. In the event that an employee is injured, our liability is limited to the amount by which these expenses exceed the normal cost of returning the employee. In the event of an employee's death, our liability is limited to the amount by which the expenses of returning the body exceed the normal cost of returning an employee who is alive and in good health.
Our liability will never exceed the amount indicated in Item 2. of the Schedule of this endorsement for one covered employee or accident.


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The policy does not afford coverage for repatriation expenses unless a specific limit of liability for each covered employee and accident appears in Item 2. of the Schedule of this endorsement.

**Section 7. Employers Liability**

The following agreement replaces Section B. of Part Two—Employers Liability of the policy with respect to the coverage this endorsement provides:

B. **We Will Pay**

We will pay, on your behalf, all sums that you become legally obligated to pay as damages because of bodily injury by accident or disease, including resulting death, sustained in any country(ies) designated in Item 1. of the Schedule of this endorsement other than the United States of America by any of your employees listed in Item 1. of the Schedule of this endorsement arising out of and in the course of employment by you.

The following provisions apply to Section 7. of this endorsement:

A. We will reimburse you for all reasonable expenses you incur, including attorney fees in defending any suit against you alleging injury and seeking damages on account of any insurance this section of this endorsement affords. We assume no obligation to defend or reimburse you for any suit or any proceeding brought against you outside the United States of America.

B. The limit of our liability under Part Two will be in accordance with the following provisions:

The words "damages because of bodily injury by accident or disease, including resulting in death" in Section 7-B above include damages for care and loss of services. These words also include damages for which you are liable because of suits or claims others bring against you to recover the damages obtained from such others because of bodily injury your employees listed in Item 1. of the Schedule of this endorsement sustain arising out of and in the course of their employment.

The limit of liability in Item 3. of the Schedule of this endorsement that applies to "bodily injury by accident" is the most we will pay for all damages, including damages for care and loss of services, to one or more employees listed in Item 1. of the Schedule of this endorsement in any one accident.

The limit of liability in Item 3. of the Schedule of this endorsement that applies to "bodily injury by disease—policy limit" is the most we will pay for all damages because of bodily injury by disease, including resulting death, regardless of the number of employees listed in Item 1. of the Schedule of this endorsement who sustain bodily injury by disease outside the United States of America.

The limit shown in Item 3. of the Schedule of this endorsement for "bodily injury by disease—each employee" is the most we will pay for all damages because of bodily injury by disease to any one employee listed in Item 1. of the Schedule of this endorsement.
The limits of liability designated in this endorsement supersede and are not cumulative with any limit(s) of liability elsewhere in the policy. The inclusion of more than one insured does not increase the limits of our liability.

We will not make any additional payments for any claims for damages after we have paid the applicable limit of liability as shown in Items 2. and 3. of the Schedule of this endorsement.

**Section 8. Premium**

In addition to the provisions of Part Five—Premium of the policy, the following provisions will apply to this endorsement:

A. We will compute the premium for this coverage in accordance with Part Five of the policy, upon all remuneration paid to employees shown in Item 1. of the Schedule of this endorsement while traveling or residing in the country(ies) listed in the same Schedule for a period of no longer than the maximum number of consecutive days per policy period indicated in Item 1. of the Schedule of this endorsement.

Each period of travel or temporary residence for each listed employee may be no longer than the maximum number of consecutive days shown in Item 1. of the Schedule of this endorsement.

B. We will determine the premium for this coverage on the basis of the workers compensation rules, classifications, and rates approved by the appropriate regulatory authority for the state workers compensation law designated in Item 1. of the Schedule of this endorsement.

C. You must maintain payroll records for any employee covered by the provisions of this endorsement.


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**Section 9. Other Insurance**

The following provision replaces Section E of Part One and Section F of Part Two of the policy with respect to the coverage this endorsement provides:
The insurance for a loss covered by this endorsement will be excess insurance over and above any other insurance, except with respect to insurance provided under Section 5. The limits of liability for this insurance will be reduced by an amount equal to the limits of liability other insurance affords.

Schedule

| | Name(s) of Employees | Country(ies) of Operations | Maximum Number of Consecutive Days | Designated Workers Compensation Law |
|---|---|---|---|---|
| 1. | ALL DESIGNATED EMPLOYEES OF THE INSURED | OTHER THAN THE UNITED STATES, ITS TERRITORIES OR POSSESSIONS OR CANADA | PER STATE WORK COMP LAW | STATE OF CURRENT EMPLOYMENT |

2. **Limits of Liability for Repatriation Expense**

| | | |
|---|---|---|
| $ | 1,000,000 | Each employee |
| $ | 1,000,000 | Each accident |

3. **Limits of Liability for Part Two—Employers Liability**

| | | |
|---|---|---|
| $ | 1,000,000 | Bodily injury by accident—each accident |
| $ | 1,000,000 | Bodily injury by disease—each employee |
| $ | 1,000,000 | Bodily injury by disease—policy limit |

All other terms, conditions, and exclusions apply.


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| | | | |
|---|---|---|---|
| Named Insured | | | |
| Policy Number | | Endorsement No. | |
| Policy Period | to | Endorsement Effective Date: | |
| Producer's Name: | | | |
| Producer Number: | | | |

AUTHORIZED REPRESENTATIVE

DATE

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.
**(The information below is required only when this endorsement is issued subsequent to preparation of the policy.)**

Endorsement Effective **07-01-17** Policy No. **MWC 310639 00** Endorsement No.

Insured **VERITY HEALTH SYSTEM OF CALIFORNIA, INC.** Premium $ **INCL.**

Insurance Company **OLD REPUBLIC INSURANCE COMPANY**

Countersigned By Gary Vico


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# IL 10 (12/06) OLD REPUBLIC INSURANCE COMPANY

## WORKERS' COMPENSATION AND EMPLOYERS' LIABILITY INSURANCE POLICY

## DESIGNATED ENTITY - NOTICE OF CANCELATION PROVIDED BY US

### SCHEDULE

**Number of Days Notice of Cancelation:** 30

**Person or Organization:**
SAN MATEO COUNTY TRANSIT DISTRICT

**Address:**
C/O INSURANCE TRACKING SERVICES, INC. (ITS)
P.O. BOX 198
LONG BEACH, CA 90801

**Provisions**

If we cancel this policy for any statutorily permitted reason other than nonpayment of premium, and a number of days is shown for cancelation in the schedule above, we will mail notice of cancelation to the person or organization shown in the schedule above. We will mail such notice to the address shown in the schedule above at least the number of days shown for cancelation in the schedule above before the effective date of cancelation.

PC 009 05 10

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY** **WC 00 01 01 A**

POLICY NUMBER: **MWC 310639 00**

# DEFENSE BASE ACT COVERAGE ENDORSEMENT

This endorsement applies only to the work described in the Schedule or described on the Information Page as subject to the Defense Base Act. The policy applies to that work as though the location included in the description of the work were a state named in Item 3.A. of the Information Page.

General Section C. **Workers Compensation Law** is replaced by the following:

C. **Workers Compensation Law**

Workers Compensation Law means the workers or workmen's compensation law and occupational disease law of each state or territory named in Item 3.A. of the Information Page and the Defense Base Act (42 USC Sections 1651-1654). It includes any amendments to those laws that are in effect during the policy period. It does not include any other federal workers or workmen's compensation law, other federal occupational disease law or the provisions of any law that provide nonoccupational disability benefits.

Part Two (Employers Liability Insurance), C. Exclusions., exclusion 8, does not apply to work subject to the Defense Base Act.

**SCHEDULE**

**DESCRIPTION OF WORK**

**ON FILE WITH COMPANY**

DATE OF ISSUE: **07-21-17**

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**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY** **WC 00 01 09 C**

(Ed. 1-15)

POLICY NUMBER: MWC 310639 00

## OUTER CONTINENTAL SHELF LANDS ACT COVERAGE ENDORSEMENT

This endorsement applies only to the work described in Item 4 of the Information Page or in the Schedule as subject to the Outer Continental Shelf Lands Act. The policy will apply to that work as though the location shown in the Schedule were a state named in Item 3.A. of the Information Page.

General Section C. **Workers Compensation Law** is replaced by the following:

C. **Workers Compensation Law**

Workers Compensation Law means the workers or workmen's compensation law and occupational disease law of each state or territory named in Item 3.A. of the Information Page and the Outer Continental Shelf Lands Act (43 U.S.C. Sections 1331 et seq.). It includes any amendments to those laws that are in effect during the policy period. It does not include any other federal workers or workmen's compensation law, other federal occupational disease law or the provisions of any law that provide nonoccupational disability benefits.

Part Two (Employers Liability Insurance), C. Exclusions., exclusion 8, does not apply to work subject to the Outer Continental Shelf Lands Act.

Schedule

**Description and Location of Work**

ON FILE WITH COMPANY

DATE OF ISSUE: 07/21/2017


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## MARITIME COVERAGE ENDORSEMENT

This endorsement changes how insurance provided by Part Two (Employers Liability Insurance) applies to bodily injury to a master or member of the crew of any vessel.

A. **How This Insurance Applies** is replaced by the following:

A. **How This Insurance Applies**

This insurance applies to bodily injury by accident or bodily injury by disease. Bodily injury includes resulting death.

1. The bodily injury must arise out of and in the course of the injured employee's employment by you.
2. The employment must be necessary or incidental to work described in Item 1 of the Schedule of the Maritime Coverage Endorsement.
3. The bodily injury must occur in the territorial limits of, or in the operation of a vessel sailing directly between the ports of, the continental United States of America, Alaska, Hawaii or Canada.
4. Bodily injury by accident must occur during the policy period.
5. Bodily injury by disease must be caused or aggravated by the conditions of your employment. The employee's last day of last exposure to the conditions causing or aggravating such bodily injury by disease must occur during the policy period.
6. If you are sued, the original suit and any related legal actions for damages for bodily injury by accident or by disease must be brought in the United States of America, its territories or possessions, or Canada.

C. **Exclusions** is changed by removing exclusion 10 and by adding exclusions 13 and 14.

This insurance does not cover:

13. Bodily injury covered by a Protection and Indemnity Policy or similar policy issued to you or for your benefit. This exclusion applies even if the other policy does not apply because of another insurance clause, deductible or limitation of liability clause, or any similar clause.
14. Your duty or obligation to provide transportation, wages, maintenance, and cure. This exclusion does not apply if a premium entry is shown in Item 2 of the Schedule, except that punitive damages related to your duty or obligation to provide transportation, wages, maintenance, and cure under any applicable maritime law are excluded even if a premium is paid for transportation, wages, maintenance, and cure coverage.

D. **We Will Defend** is changed by adding the following statement:

We will treat a suit or other action in rem against a vessel owned or chartered by you as a suit against you.

G. **Limits of Liability**

Our liability to pay for damages is limited. Our limits of liability are shown in the Schedule. They apply as explained below.

1. Bodily Injury by Accident. The limit shown for "bodily injury by accident—each accident" is the most we will pay for all damages covered by this insurance because of bodily injury to one or more employees in any one accident.

   A disease is not bodily injury by accident unless it results directly from bodily injury by accident.
2. Bodily Injury by Disease. The limit shown for "bodily injury by disease—aggregate" is the most we will pay for all damages covered by this insurance because of bodily injury by disease to one or more employees. The limit applies separately to bodily injury by disease arising out of work in each state shown in Item 3.A. of the Information Page. Bodily injury by disease will be deemed to occur in the state of the vessel's home port.

   Bodily injury by disease does not include disease that results directly from a bodily injury by accident.
3. We will not pay any claims for damages after we have paid the applicable limit of our liability under this insurance.



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**WC 00 02 01 B** **WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY**

(Ed. 1-15)

POLICY NUMBER: MWC 310639 00

Schedule

1. Description of work:
   **ON FILE WITH COMPANY**

2. Transportation, Wages, Maintenance, and Cure Premium **INCLUDED**
   **Exclusion:** This insurance does not cover punitive damages related to your duty or obligation to provide transportation, wages, maintenance, and cure under any applicable maritime law even if a premium is paid for transportation, wages, maintenance, and cure coverage.

3. Limits of Liability

| | | |
|---|---|---|
| Bodily Injury by Accident | **$1,000,000** | each accident |
| Bodily Injury by Disease | **$1,000,000** | aggregate |

DATE OF ISSUE: 07/21/2017




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# VOLUNTARY COMPENSATION MARITIME COVERAGE ENDORSEMENT

This endorsement adds Voluntary Compensation Maritime Insurance to the policy.

A. **How This Insurance Applies**

This insurance applies to bodily injury by accident or bodily injury by disease. Bodily injury includes resulting death.

1. The bodily injury must be sustained by an employee who is a master or member of the crew of a vessel described in the Schedule.
2. The bodily injury must occur in employment that is necessary or incidental to work described in Item 2 of the Schedule.
3. The bodily injury must occur in the territorial limits of, or in the operation of a vessel sailing directly between the ports of, the continental United States of America, Alaska, Hawaii or Canada.
4. Bodily injury by accident must occur during the policy period.
5. Bodily injury by disease must be caused or aggravated by the conditions of your employment. The employee's last day of last exposure to the conditions causing or aggravating such bodily injury by disease must occur during the policy period.

B. **We Will Pay**

We will pay an amount equal to the benefits that would be required of you if you and your employees described in Item 1 of the Schedule were subject to the workers compensation law shown in Item 1 of the Schedule. We will pay those amounts to the persons who would be entitled to them under that law.

C. **Exclusions**

This insurance does not cover:

1. any obligation imposed by a workers compensation or occupational disease law, or any similar law.
2. bodily injury intentionally caused or aggravated by you.

D. **Before We Pay**

Before we pay benefits to the persons entitled to them, they must:

1. release you and us, in writing, of all responsibility for the injury or death.
2. transfer to us their right to recover from others who may be responsible for the injury or death.
3. cooperate with us and do everything necessary to enable us to enforce the right to recover from others.

If the persons entitled to the benefits of this insurance fail to do those things, our duty to pay ends at once. If they claim damages from you or from us for the injury or death, our duty to pay ends at once.

E. **Recovery From Others**

If we make a recovery from others, we will keep an amount equal to our expenses of recovery and the benefits we paid. We will pay the balance to the persons entitled to it. If the persons entitled to the benefits of this insurance make a recovery from others, they must reimburse us for the benefits we paid them.

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WC 00 02 03 **WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY**

POLICY NUMBER: MWC 310639 00

**SCHEDULE**

1. EMPLOYEES

Master and members of the crews of these vessels

ON FILE WITH COMPANY

Workers Compensation Law

STATE OF HIRE

2. DESCRIPTION OF WORK

ON FILE WITH COMPANY

DATE OF ISSUE: 07-21-17

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**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY** **WC 00 03 01 A**

POLICY NUMBER: MWC 310639 00

# ALTERNATE EMPLOYER ENDORSEMENT

This endorsement applies only with respect to bodily injury to your employees while in the course of special or temporary employment by the alternate employer in the state named in Item 2 of the Schedule. Part One (Workers Compensation Insurance) and Part Two (Employers Liability Insurance) will apply as though the alternate employer is insured. If an entry is shown in Item 3 of the Schedule the insurance afforded by this endorsement applies only to work you perform under the contract or at the project named in the Schedule.

Under Part One (Workers Compensation Insurance) we will reimburse the alternate employer for the benefits required by the workers compensation law if we are not permitted to pay the benefits directly to the persons entitled to them.

The insurance afforded by this endorsement is not intended to satisfy the alternate employer's duty to secure its obligations under the workers compensation law. We will not file evidence of this insurance on behalf of the alternate employer with any government agency.

We will not ask any other insurer of the alternate employer to share with us a loss covered by this endorsement.

Premium will be charged for your employees while in the course of special or temporary employment by the alternate employer.

The policy may be canceled according to its terms without sending notice to the alternate employer.

Part Four (Your Duties If Injury Occurs) applies to you and the alternate employer. The alternate employer will recognize our right to defend under Parts One and Two and our right to inspect under Part Six.

**SCHEDULE**

1. **ALTERNATE EMPLOYER** **ADDRESS**
   ON FILE WITH COMPANY

2. **STATE OF SPECIAL OR TEMPORARY EMPLOYMENT**
   ON FILE WITH COMPANY

3. **CONTRACT OR PROJECT**

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**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY** **WC 00 03 03 C**

POLICY NUMBER: MWC 310639 00

**EMPLOYERS LIABILITY COVERAGE ENDORSEMENT**

This endorsement applies only to work in the states shown in the Schedule.

A. Part One (Workers Compensation Insurance) does not apply to work in a state shown in the Schedule.

B. Part Two (Employers Liability Insurance) applies to work in states shown in the Schedule as though they were shown in Item 3.A. of the Information Page.

C. Part Two (Employers Liability Insurance), C. Exclusions is changed by adding these exclusions.

This insurance does not cover

13. bodily injury to an employee when you are deprived of common law defenses or are subject to penalty because of your failure to secure your obligations under the workers compensation law of any state shown in the Schedule or otherwise fail to comply with that law.

Schedule

**States**

**ND**
**WA**
**WY**

DATE OF ISSUE: 07-21-17

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**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY** **WC 00 03 19**

POLICY NUMBER: **MWC 310639 00**

# EMPLOYEE LEASING CLIENT ENDORSEMENT

This endorsement applies only to the insurance provided by the policy when you enter into a contract or have an existing contract or contracts to lease workers to others. Part Six (Conditions) is changed by adding these conditions. Each entity to which you lease workers is called the Client. You must provide us the following information in writing for each Client within 30 days of the effective date of the leasing contract:

1. Contract effective date and term.

2. Client's name.

3. Client's Federal Employer Identification Number.

4. Client's mailing address.

5. Number of workers you leased to your Client, description of duties of each, and work location of each.

Your Clients are obligated to maintain workers compensation coverage for their direct and leased employees. You must submit to us a certificate of insurance from your Client's insurer or other proof that the Client has lawfully secured its workers compensation obligations for the leased workers. If you do not submit the certificate of insurance or other proof, you must pay premium for the leased employees. If your Client has not obtained the lawful coverage, we may cancel the policy as provided in Part Six (Conditions), Section D. Cancelation, of the policy.

DATE OF ISSUE: **07-21-17**

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**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY** **WC 00 04 06**

POLICY NUMBER: MWC 310639 00

# PREMIUM DISCOUNT ENDORSEMENT

The premium for this policy and the policies, if any, listed in Item 3 of the Schedule may be eligible for a discount. This endorsement shows your estimated discount in Items 1 or 2 of the Schedule. The final calculation of premium discount will be determined by our manuals and your premium basis as determined by audit. Premium subject to retrospective rating is not subject to premium discount.

**SCHEDULE**

| | | ESTIMATED ELIGIBLE PREMIUM | | | |
|---|---|---|---|---|---|
| 1. STATE | FIRST $5,000 | NEXT $95,000 | NEXT $400,000 | BALANCE |
| CA | 0 | .109 | .126 | .144 |

2. **AVERAGE PERCENTAGE DISCOUNT:** %

3. **OTHER POLICIES:**

4. If there are no entries in Items 1, 2 and 3, of the Schedule see the Premium Discount Endorsement attached to your policy number:

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**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY** **WC 00 04 19**

POLICY NUMBER: **MWC 310639 00**

# PREMIUM DUE DATE ENDORSEMENT

This endorsement is used to amend:

Section D. of Part Five of the policy is replaced by this provision.

**PART FIVE**
**PREMIUM**

D. **Premium** is amended to read:

You will pay all premium when due. You will pay the premium even if part or all of a workers compensation law is not valid. **The due date for audit and retrospective premiums is the date of the billing.**

DATE OF ISSUE: **07-21-17**

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## CATASTROPHE (OTHER THAN CERTIFIED ACTS OF TERRORISM) PREMIUM ENDORSEMENT

This endorsement is notification that your insurance carrier is charging premium to cover the losses that may occur in the event of a Catastrophe (other than Certified Acts of Terrorism) as that term is defined below. Your policy provides coverage for workers compensation losses caused by a Catastrophe (other than Certified Acts of Terrorism). This premium charge does not provide funding for Certified Acts of Terrorism contemplated under the Terrorism Risk Insurance Program Reauthorization Act Disclosure Endorsement (WC 00 04 22 B), attached to this policy.

For purposes of this endorsement, the following definitions apply:

- Catastrophe (other than Certified Acts of Terrorism): Any single event, resulting from an Earthquake, Noncertified Act of Terrorism, or Catastrophic Industrial Accident, which results in aggregate workers compensation losses in excess of $50 million.
- Earthquake: The shaking and vibration at the surface of the earth resulting from underground movement along a fault plane or from volcanic activity.
- Noncertified Act of Terrorism: An event that is not certified as an Act of Terrorism by the Secretary of Treasury pursuant to the Terrorism Risk Insurance Act of 2002 (as amended) but that meets all of the following criteria:
  a. It is an act that is violent or dangerous to human life, property, or infrastructure;
  b. The act results in damage within the United States, or outside of the United States in the case of the premises of United States missions or air carriers or vessels as those terms are defined in the Terrorism Risk Insurance Act of 2002 (as amended); and
  c. It is an act that has been committed by an individual or individuals as part of an effort to coerce the civilian population of the United States or to influence the policy or affect the conduct of the United States Government by coercion.
- Catastrophic Industrial Accident: A chemical release, large explosion, or small blast that is localized in nature and affects workers in a small perimeter the size of a building.

The premium charge for the coverage your policy provides for workers compensation losses caused by a Catastrophe (other than Certified Acts of Terrorism) is shown in Item 4 of the Information Page or in the Schedule below.

**Schedule**

| State | Rate | Premium |
|---|---|---|
| CA | .00 | $ 0 |

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.
**(The information below is required only when this endorsement is issued subsequent to preparation of the policy.)**

Endorsement Effective 07-01-17 Policy No. MWC 310639 00 Endorsement No.

Insured VERITY HEALTH SYSTEM OF Premium $ INCL.

Insurance Company OLD REPUBLIC INSURANCE COMPANY

Countersigned By Gary Hoo


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## TERRORISM RISK INSURANCE PROGRAM REAUTHORIZATION ACT DISCLOSURE ENDORSEMENT

This endorsement addresses the requirements of the Terrorism Risk Insurance Act of 2002 as amended and extended by the Terrorism Risk Insurance Program Reauthorization Act of 2015. It serves to notify you of certain limitations under the Act, and that your insurance carrier is charging premium for losses that may occur in the event of an Act of Terrorism.

Your policy provides coverage for workers compensation losses caused by Acts of Terrorism, including workers compensation benefit obligations dictated by state law. Coverage for such losses is still subject to all terms, definitions, exclusions, and conditions in your policy, and any applicable federal and/or state laws, rules, or regulations.

**Definitions**

The definitions provided in this endorsement are based on and have the same meaning as the definitions in the Act .If words or phrases not defined in this endorsement are defined in the Act, the definitions in the Act will apply.

"Act" means the Terrorism Risk Insurance Act of 2002, which took effect on November 26, 2002, and any amendments thereto, including any amendments resulting from the Terrorism Risk Insurance Program Reauthorization Act of 2015.

"Act of Terrorism" means any act that is certified by the Secretary of the Treasury, in consultation with the Secretary of Homeland Security, and the Attorney General of the United States as meeting all of the following requirements:

a. The act is an act of terrorism.

b. The act is violent or dangerous to human life, property or infrastructure.

c. The act resulted in damage within the United States, or outside of the United States in the case of the premises of United States missions or certain air carriers or vessels.

d. The act has been committed by an individual or individuals as part of an effort to coerce the civilian population of the United States or to influence the policy or affect the conduct of the United States Government by coercion.

"Insured Loss" means any loss resulting from an act of terrorism (and, except for Pennsylvania, including an act of war, in the case of workers compensation) that is covered by primary or excess property and casualty insurance issued by an insurer if the loss occurs in the United States or at the premises of United States missions or to certain air carriers or vessels.

"Insurer Deductible" means, for the period beginning on January 1, 2015, and ending on December 31, 2020, an amount equal to 20% of our direct earned premiums, during the immediately preceding calendar year.

**Limitation of Liability**

The Act limits our liability to you under this policy. If aggregate Insured Losses exceed $100,000,000,000 in a calendar year and if we have met our Insurer Deductible, we are not liable for the payment of any portion of the amount of Insured Losses that exceeds $100,000,000,000; and for aggregate Insured Losses up to $100,000,000,000, we will pay only a pro rata share of such Insured Losses as determined by the Secretary of the Treasury.

**Policyholder Disclosure Notice**

1. Insured Losses would be partially reimbursed by the United States Government. If the aggregate industry Insured Losses exceed:
   a. $100,000,000, with respect to such Insured Losses occurring in calendar year 2015, the United States Government would pay 85% of our Insured Losses that exceed our Insurer Deductible.
   b. $120,000,000, with respect to such Insured Losses occurring in calendar year 2016, the United States Government would pay 84% of our Insured Losses that exceed our Insurer Deductible.
   c. $140,000,000, with respect to such Insured Losses occurring in calendar year 2017, the United States Government would pay 83% of our Insured Losses that exceed our Insurer Deductible.
   d. $160,000,000, with respect to such Insured Losses occurring in calendar year 2018, the United States Government would pay 82% of our Insured Losses that exceed our Insurer Deductible.

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**WC 00 04 22 B** **WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY**

(Ed. 1-15)

e. $180,000,000, with respect to such Insured Losses occurring in calendar year 2019, the United States Government would pay 81% of our Insured Losses that exceed our Insurer Deductible.

f. $200,000,000, with respect to such Insured Losses occurring in calendar year 2020, the United States Government would pay 80% of our Insured Losses that exceed our Insurer Deductible.

2. Notwithstanding item 1 above, the United States Government will not make any payment under the Act for any portion of Insured Losses that exceed $100,000,000,000.

3. The premium charge for the coverage your policy provides for Insured Losses is included in the amount shown in Item 4 of the Information Page or in the Schedule below.

**Schedule**

| State | Rate | Premium |
|---|---|---|
| CA | .03 | $ 159,069 |

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.
**(The information below is required only when this endorsement is issued subsequent to preparation of the policy.)**

Endorsement Effective 07-01-17 Policy No. MWC 310639 00 Endorsement No.

Insured VERITY HEALTH SYSTEM OF Premium $ INCL.

Insurance Company OLD REPUBLIC INSURANCE COMPANY

Countersigned By

**WC 00 04 22 B**
**(Ed. 1-15)**
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# OLD REPUBLIC INSURANCE COMPANY

## LARGE DEDUCTIBLE/LOSS REIMBURSEMENT SCHEDULE

| STATE | DEDUCTIBLE/LOSS REIMBURSEMENT AMOUNT | CREDIT |
|---|---|---|
| CA | $500,000 PER CLAIM/OCCURRENCE | .859647 |

Note: Refer to applicable deductible or loss reimbursement endorsements for more specific coverage information.

WC 99 06 04

# CALIFORNIA
# WORKERS COMPENSATION AND EMPLOYERS LIABILITY DEDUCTIBLE PLAN ENDORSEMENT WITH OPTIONAL AGGREGATE (DEDUCTIBLE INCLUDES ALAE)

This endorsement applies only to the insurance provided by the policy because California is shown in Item 3.A of the Information Page.

1. Except as stated in paragraph 6. below, this endorsement applies to the insurance provided by Part One (Workers Compensation Insurance) and Part Two (Employers Liability Insurance) in the states shown in the Schedule.

2. This endorsement applies between you and us. It does not affect rights of others under the policy. Nor does it change our obligations under the policy, except as otherwise stated in this endorsement.

3. In consideration for the Deductible Credit shown in the Schedule, you will reimburse us up to the Deductible Amount(s) stated in the Schedule for all payments we may make on your behalf because of bodily injury to one or more persons as a result of any one accident, or because of bodily injury to one or more persons due to bodily injury by disease.

   **You must:**

   A. Pay all premiums for which you are responsible under this policy, and

   B. Reimburse us for any such amounts that we pay or advance upon receipt of a billing from us.

   If you fail to do so, we may, at our option, cancel this policy for nonpayment of premium in accordance with the Cancelation Condition.

   If you fail to reimburse us for any amounts as required by this endorsement and we cancel this policy for non-payment of premium in accordance with provisions of statute, we will remain fully responsible for the full amount of all claims incurred prior to the effective date of cancelation.

   In the event of cancelation, collected and unearned premium will be returned in conjunction with our manual rules, less any uncollected advances paid for losses within the deductible including allocated loss adjustment expenses.

   We will remain responsible for the full payment of all claims under this policy without regard to your ability or intention to reimburse us for the deductible amounts. The contract of insurance shall be fully enforceable by your employees or their dependents against us.

   Allocated loss adjustment expense(s) will be treated as advancements within the Deductible Amount(s) and are to be reimbursed by you, based on your election to include such expense(s).

4. A. The Bodily Injury By Accident Each Occurrence Deductible Amount shown in the Schedule applies separately to the insurance provided by:

      (1) Part One (Workers Compensation Insurance);

      (2) Part Two (Employers Liability Insurance).

B. The Bodily Injury By Disease Each Claim Deductible Amount shown in the Schedule applies separately to each employee for all damages arising out of bodily injury by disease, regardless of the number of employees who sustain bodily injury by disease.

C. It is further agreed such Deductible Amount(s) include any allocated loss adjustment expense incurred by us.

5. **Policy Period Aggregate**

A. The amount shown in the Schedule as All Covered Bodily Injury Aggregate, is the most you must reimburse us for the sum of all indemnity and medical benefits and damages per accident or per disease as appropriate, including any allocated loss adjustment expense incurred by us.

B. If we cancel the policy or this endorsement, the aggregate will be reduced by the pro-rate portion of the amount equal to the time remaining in the policy period.

C. The aggregate will not be reduced if:

(1) this endorsement is issued for a term of less than (1) year; or

(2) the policy or this endorsement is canceled for any reason by you before the end of the policy period including your:

i. failure to pay the premium; or

ii. failure to reimburse us for our payment of a claim or occurrence within the deductible limit of this policy.

D. At our option, we will change the amount of the aggregate at the time of final audit, when there is a variance of your actual payroll to the amount reported to us at the outset of this policy. The amount of change to the aggregate will be proportionate to the change in payroll but will never be less than that shown on the Schedule.

6. As respects to Part Two (Employers Liability Insurance), the following apply:

A. The terms of the policy, including those with respect to (a) our right and duty with respect to the defense of suits and (b) your duties in the event of an injury apply irrespective of the application of the Deductible Amount(s);

B. The applicable limits of liability shall be inclusive of and not in addition to the Deductible Amount(s).

7. "Allocated Loss Adjustment Expense" shall mean such claim adjustment expenses directly allocated by us to a particular claim. Such expense shall include, but not be limited to, attorney's fees for claims in suit, court and other specific items of expense, such as medical examination, expert medical or other testimony, laboratory and x-ray, autopsy, stenographic, witnesses and summonses, and copies of documents. But it shall not include the salaries and traveling expenses of our employees other than those salaried employees who perform services which directly relate to and can be directly allocated to the handling of a particular claim.

8. The following provisions apply to the policy and supercede any provisions to the contrary.

1. Recovery From Others

We have your rights and the rights of persons entitled to the benefits of this insurance to recover all advances and payments, including those within the Deductible Amount(s) from anyone liable for the injury. You will do everything necessary to protect those rights for us and to help us enforce them. If we recover any advance or payment made under this policy from anyone liable for the injury, the amount we recover will first be applied to any payments made by us on this injury in excess of the Deductible Amount(s); only then will the remainder of the recovery, if any, be applied to reduce the Deductible Amount(s) paid or reimbursed or reimbursable by you on this injury.

2. Security

We require security or collateral from you in such amounts as negotiated by us and you. Failure to provide or maintain any such security shall be treated as failure to pay premium when due.

## SCHEDULE

**See Large Deductible/Loss Reimbursement Schedule**

| DEDUCTIBLE AMOUNT | STATE(S) APPLICABLE | DEDUCTIBLE CREDIT |
|---|---|---|
| | California | |

| COVERAGE | | DEDUCTIBLE AMOUNT |
|---|---|---|
| Bodily Injury By Accident | $ | Each "Occurrence" |
| Bodily Injury By Disease | $ | Each "Claim" |
| All Covered Bodily Injury | $ | Aggregate |

This endorsement will not vary, alter or extend any agreement, provision, condition or declaration of the policy other than as stated above.

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.
**(The information below is required only when this endorsement is issued subsequent to preparation of the policy.)**

Endorsement Effective 07-01-17 Policy No. MWC 310639 00 Endorsement No.

Insured VERITY HEALTH SYSTEM OF Premium $ INCL.

Insurance Company OLD REPUBLIC INSURANCE COMPANY

Countersigned By Gary Hibbs

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY** **WC 04 01 01 A**

POLICY NUMBER: **MWC 310639 00**

# LONGSHORE AND HARBOR WORKERS' COMPENSATION ACT COVERAGE ENDORSEMENT - CALIFORNIA

This endorsement applies only to work subject to the Longshore and Harbor Workers' Compensation Act in California. The policy applies to that work as though California were listed in item 3.A. of the Information Page.

General Section **C. Workers' Compensation Law** is replaced by the following:

**C. Workers' Compensation Law**

Workers' Compensation Law means the workers' or workmen's compensation law and occupational disease law of each state or territory named in Item 3.A. of the Information Page and the Longshore and Harbor Workers' Compensation Act (33 USC Sections 901-950). It includes any amendments to those laws that are in effect during the policy period. It does not include any other federal workers' or workmen's compensation law, other federal occupational disease law or the provisions of any law that provide nonoccupational disability benefits.

Part Two (Employers Liability Insurance), **C. Exclusions.**, exclusion **8.** does not apply to work subject to the Longshore and Harbor Workers' Compensation Act.

This endorsement does not apply to work subject to the Defense Base Act, the Outer Continental Shelf Lands Act, or the Nonappropriated Fund Instrumentalities Act.

The estimated premium for the Longshore and Harbor Workers' Compensation Act coverage provided by this endorsement is as shown in the Schedule below or item 4 of the Information Page.

**SCHEDULE**

| CODE NO. | CLASSIFICATION | ESTIMATED ANNUAL REMUNERATION | RATE PER $100 OF REMUNERATION | ESTIMATED ANNUAL PREMIUM |
|---|---|---|---|---|

**TOTAL ESTIMATED ANNUAL PREMIUM $**

DATE OF ISSUE: 07-21-17

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## POLICY AMENDATORY ENDORSEMENT – CALIFORNIA

It is agreed that, anything in the policy to the contrary notwithstanding, such insurance as is afforded by this policy by reason of the designation of California in Item 3 of the Information Page is subject to the following provisions:

1. **Minors Illegally Employed – Not Insured.** This policy does not cover liability for additional compensation imposed on you under Section 4557, Division IV, Labor Code of the State of California, by reason of injury to an employee under sixteen years of age and illegally employed at the time of injury.

2. **Punitive or Exemplary Damages – Uninsurable.** This policy does not cover punitive or exemplary damages where insurance of liability therefor is prohibited by law or contrary to public policy.

3. **Increase in Indemnity Payment – Reimbursement.** You are obligated to reimburse us for the amount of increase in indemnity payments made pursuant to Subdivision (d) of Section 4650 of the California Labor Code, if the late indemnity payment which gives rise to the increase in the amount of payment is due less than seven (7) days after we receive the completed claim form from you. You are obligated to reimburse us for any increase in indemnity payments not covered under this policy and will reimburse us for any increase in indemnity payment not covered under the policy when the aggregate total amount of the reimbursement payments paid in a policy year exceeds one hundred dollars ($100).

   If we notify you in writing, within 30 days of the payment, that you are obligated to reimburse us, we will bill you for the amount of increase in indemnity payment and collect it no later than the final audit. You will have 60 days, following notice of the obligation to reimburse, to appeal the decision of the insurer to the Department of Insurance.

4. **Application of Policy.** Part One, "Workers Compensation Insurance", A, "How This Insurance Applies", is amended to read as follows:

   This workers compensation insurance applies to bodily injury by accident or disease, including death resulting therefrom. Bodily injury by accident must occur during the policy period. Bodily injury by disease must be caused or aggravated by the conditions of your employment. Your employee's exposure to those conditions causing or aggravating such bodily injury by disease must occur during the policy period.

5. **Rate Changes.** The premium and rates with respect to the insurance provided by this policy by reason of the designation of California in Item 3 of the Information Page are subject to change if ordered by the Insurance Commissioner of the State of California pursuant to Section 11737 of the California Insurance Code.

6. **Long Term Policy.** If this policy is written for a period longer than one year, all the provisions of this policy shall apply separately to each consecutive twelve-month period or, if the first or last consecutive period is less than twelve months, to such period of less than twelve months, in the same manner as if a separate policy had been written for each consecutive period.

7. **Statutory Provision.** Your employee has a first lien upon any amount which becomes owing to you by us on account of this policy, and in the case of your legal incapacity or inability to receive the money and pay it to the claimant, we will pay it directly to the claimant.

8. Part Five, "Premium", E, "Final Premium", is amended to read as follows:

   The premium shown on the Information Page, schedules, and endorsements is an estimate. The final premium will be determined after this policy ends by using the actual, not the estimated, premium basis and the proper classifications and rates that lawfully apply to the business and work covered by this policy. If the final premium is more than the premium you paid to us, you must pay us the balance. If it is less, we will refund the balance to you. The final premium will not be less than the highest minimum premium for the classifications covered by this policy.



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If this policy is canceled, final premium will be determined in the following way unless our manuals provide otherwise:

a. If we cancel, final premium will be calculated pro rata based on the time this policy was in force. Final premium will not be less than the pro rata share of the minimum premium.
b. If you cancel, final premium may be more than pro rata; it will be based on the time this policy was in force, and may be increased by our short-rate cancelation table and procedure. Final premium will not be less than the pro rata share of the minimum premium.

9. **The Insured's Email Address.** The insured's email address must be included in Item 1 of the Information Page if the insurer intends to electronically transmit an offer of renewal for a workers' compensation insurance policy to the insured (California Insurance Code §38.5 (b).

It is further agreed that this policy, including all endorsements forming a part thereof, constitutes the entire contract of insurance. No condition, provision, agreement, or understanding not set forth in this policy or such endorsements shall affect such contract or any rights, duties, or privileges arising therefrom.

DATE OF ISSUE: 07/21/2017



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**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY** **WC 04 03 05**

POLICY NUMBER: MWC 310639 00

# VOLUNTARY COMPENSATION AND EMPLOYERS LIABILITY COVERAGE ENDORSEMENT - CALIFORNIA

If the employer named in ITEM 1 of the Information Page has in his employment persons not entitled to compensation under Division 4 of the Labor Code of the State of California, this policy shall operate as an election on the part of the employer to come under the compensation provisions of Division 4 with respect to those persons described in the Schedule below.

This policy applies to those persons described in the Schedule below as employees.

**SCHEDULE**

ALL EMPLOYEES NOT SUBJECT TO ANY WORKERS' COMPENSATION LAW

DATE OF ISSUE: 07-21-17

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**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY** **WC 04 03 06 (Ed. 04-84)**

POLICY NUMBER: MWC 310639 00

# WAIVER OF OUR RIGHT TO RECOVER FROM OTHERS ENDORSEMENT - CALIFORNIA

We have the right to recover our payments from anyone liable for an injury covered by this policy. We will not enforce our right against the person or organization named in the Schedule. (This agreement applies only to the extent that you perform work under a written contract that requires you to obtain this agreement from us.)

You must maintain payroll records accurately segregating the remuneration of your employees while engaged in the work described in the Schedule.

The additional premium for this endorsement shall be % of the California workers' compensation premium otherwise due on such remuneration.

**SCHEDULE**

| PERSON OR ORGANIZATION | JOB DESCRIPTION |
|---|---|
| ON FILE WITH COMPANY | ON FILE WITH COMPANY |

DATE OF ISSUE: 07-21-17

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**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY** **WC 04 03 10**

POLICY NUMBER: MWC 310639 00

# DUTY TO DEFEND-CALIFORNIA

The Insurance afforded by Part One, Section C, "We Will Defend", is hereby deleted and replaced with the following:

**WE WILL DEFEND**

We have the right and duty to defend at our expense any claim or proceeding against you before the California Workers' Compensation Appeals Board or its equivalent in any other state (and any appeal of a decision therefrom) for the benefits payable by this workers' compensation insurance. We have the right to investigate and settle these claims or proceedings.

We have no duty to defend a claim, proceeding, or suit that is not covered by this insurance.

Nothing contained in this Section shall amend, modify, restrict or otherwise alter any obligations or conditions under Part Two-Employer's Liability Insurance of the policy.

DATE OF ISSUE: 07-21-17

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**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY** **WC 04 03 60 B (Ed. 01-15)**

## EMPLOYERS' LIABILITY COVERAGE AMENDATORY ENDORSEMENT—CALIFORNIA

The insurance afforded by Part Two (Employers' Liability Insurance) by reason of designation of California in item 3 of the information page is subject to the following provisions:

**A. "How This Insurance Applies,"** is amended to read as follows:

A. How This Insurance Applies

This employers' liability insurance applies to bodily injury by accident or bodily injury by disease. Bodily injury means a physical injury, including resulting death.

1. The bodily injury must arise out of and in the course of the injured employee's employment by you.
2. The employment must be necessary or incidental to your work in California.
3. Bodily injury by accident must occur during the policy period.
4. Bodily injury by disease must be caused or aggravated by the conditions of your employment. The employee's last day of last exposure to the conditions causing or aggravating such bodily injury by disease must occur during the policy period.
5. If you are sued, the original suit and any related legal actions for damages for bodily injury by accident or by disease must be brought in the United States of America, its territories or possessions, or Canada.

C. The "**Exclusions**" section is modified as follows (all other exclusions in the "**Exclusions**" section remain as is):

1. Exclusion 1 is amended to read as follows:
   1. liability assumed under a contract.

2. Exclusion 2 is deleted.

3. Exclusion 7 is amended to read as follows:
   7. damages arising out of coercion, criticism, demotion, evaluation, reassignment, discipline, defamation, harassment, humiliation, discrimination against or termination of any employee, termination of employment, or any personnel practices, policies, acts or omissions.

4. The following exclusions are added:
   1. bodily injury to any member of the flying crew of any aircraft.
   2. bodily injury to an employee when you are deprived of statutory or common law defenses or are subject to penalty because of your failure to secure your obligations under the workers' compensation law(s) applicable to you or otherwise fail to comply with that law.
   3. liability arising from California Labor Code Section 2810.3 which relates to labor contracting.

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.
**(The information below is required only when this endorsement is issued subsequent to preparation of the policy.)**

Endorsement Effective 07-01-17 Policy No. MWC 310639 00 Endorsement No.
Insured VERITY HEALTH SYSTEM OF CALIFORNIA, INC. Premium $ INCL.
Insurance Company OLD REPUBLIC INSURANCE COMPANY

Countersigned By Gary Hsu

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# CALIFORNIA CANCELATION ENDORSEMENT

This endorsement applies only to the insurance provided by the policy because California is shown in Item 3.A. of the INFORMATION PAGE.

The cancelation condition in Part Six (Conditions) of the policy is replaced by these conditions:

CANCELATION

1. You may cancel this policy. You must mail or deliver advance written notice to us stating when the cancelation is to take effect.

2. We may cancel this policy for one or more of the following reasons:

   a. Non-payment of premium;

   b. Failure to report payroll;

   c. Failure to permit us to audit payroll as required by the terms of this policy or of a previous policy issued by us;

   d. Failure to pay any additional premium resulting from an audit of payroll required by the terms of this policy or any previous policy issued by us;

   e. Material misrepresentation made by you or your agent;

   f. Failure to cooperate with us in the investigation of a claim;

   g. Failure to comply with Federal or State safety orders;

   h. Failure to comply with written recommendations of our designated loss control representatives;

   i. The occurrence of a material change in the ownership of your business;

   j. The occurrence of any change in your business or operations that materially increases the hazard for frequency or severity of loss;

   k. The occurrence of any change in your business or operation that requires additional or different classification for premium calculation;

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I. The occurrence of any change in your business or operation which contemplates an activity excluded by our reinsurance treaties.

3 If we cancel your policy for any of the reasons listed in (a) through (f), we will give you 10 days advance written notice, stating when the cancelation is to take effect. Mailing that notice to you at your mailing address shown in Item 1 of the Information Page will be sufficient to prove notice. If we cancel your policy for any of the reasons listed in Items (g) through (l), we will give you 30 days advance written notice; however, we agree that in the event of cancelation and reissuance of a policy effective upon a material change in ownership or operations, notice will not be provided.

4. The policy period will end on the day and hour stated in the cancelation notice.


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INSURED COPY

# PROGRAM AGREEMENT ENDORSEMENT

**THIS AGREEMENT** (the "Agreement") entered into by and between **OLD REPUBLIC INSURANCE COMPANY**, Greensburg, Pennsylvania (herein, the "Company"), and **DAUGHTERS OF CHARITY HEALTH SYSTEM**, Los Altos Hills, California (herein, the "Insured") on July 1, 2015 (the "Effective Date").

**WITNESSETH:**

**WHEREAS,** the Insured has requested the Company to issue to it for its benefit and for the benefit of its subsidiaries or affiliates and others as reflected in the Named Insured endorsement, effective July 1, 2015, certain insurance Policies covering the Insured's operations and those of its subsidiaries or affiliates under which the Insured will retain all or a certain portion of the Losses and Allocated Loss Adjustment Expenses;

**WHEREAS**, the Company has agreed to do so on the terms and conditions set forth below, as well as those in the insurance Policies it issues to the Insured.

**NOW THEREFORE**, in consideration of the premises and the mutual promises herein set forth, and intending legally to be bound, the parties agree as follows:

1. **Insured and its Subsidiaries**

This Agreement is entered into by the Insured for its own benefit and, subject to Section 3 below, the benefit of the Insured's subsidiaries or affiliates, and is a binding obligation of the Insured and its subsidiaries and affiliates.

2. **Application and Effective Date**

This Agreement and Schedules A, B and C attached hereto, which are a part of this Agreement, apply to each of the insurance coverages described in Section 3 below as of the effective date(s) of such insurance coverages as shown on Schedule A and will continue in full force and effect until terminated in accordance with the provisions of Section 15 hereof, and the applicable insurance laws governing such insurance coverage.

3. **The Insurance Coverages**

The Company will issue to the Insured, for the Insured's own benefit and for the benefit of such of the Insured's subsidiaries or affiliates as the Insured designates from time to time, the Company's Policies as shown on Schedule A. Coverage will be provided under each Policy with the retentions and/or deductibles that are set forth in Schedule A attached hereto. Any renewals shall be set forth on an Addendum to Schedules A, B and C.

4. **Definitions**

As used in this Agreement:

(a) "Allocated Loss Adjustment Expenses" are as defined in the applicable endorsement and/or Policy.

(b) "Claim Service Company" means the Claims Administrator designated or approved by the Company.

(c) "Insured's Retention" means the amounts of Loss and Allocated Loss Adjustment Expense which are retained by the Insured or its insured subsidiaries or affiliates per Occurrence, as indicated on Schedule A for each Policy, respectively.

(d) "Loss" or "Losses" means any claim or claims to the extent covered by any one of the Policies. "Loss" or "Losses", for purposes of any other type of claim covered under this Agreement besides workers' compensation, shall also include any extra-contractual, punitive or exemplary damages liability which may be imposed with respect to each Policy.

(e) "Obligation" or "Obligations" means any and all amounts the Insured is or will be required to pay under the terms and conditions of each Policy and this Agreement. The Insured's Obligations include, but are not limited to, Losses, Allocated Loss Adjustment Expenses, Unallocated Loss Adjustment Expenses, premiums, surcharges and assessments under each Policy and any and all indemnification, defense, or hold harmless expenses due or becoming due to the Company under this Agreement.

(f) "Occurrence" means the event or events for which there is insurance coverage under the terms and conditions of one or more of each Policy.

(g) "Unallocated Loss Adjustment Expenses" means salaries, overhead and other costs related to the claim adjustment process that are not specifically allocated to the expense incurred for a particular claim, including but not limited to any claims administration fees paid or payable in accordance with Section 11 below.

5. **Payments by the Insured**

5.1. The premium for each Policy is payable to the Company in accordance with the provisions of Schedule C.

5.2. The premium for each Policy will be subject to adjustment based upon the Company's rights of audit under the terms of each respective Policy, and will also be subject to adjustment to reflect the inclusion or exclusion of any subsidiaries as Named Insureds under each Policy during the term of coverage. The Insured's inability or failure to provide audited exposure data to the Company within ninety (90) days of a Policy's expiration date shall be considered a forfeiture of the Insured's rights under the audit provisions of this Agreement and the Policy. The Company shall use the best information available to it to produce audit adjustments which shall become due under the terms of each respective Policy.

5.3. The Policy premium includes the external costs shown on Schedule B of this Agreement. In the event of any change in the basis for the calculation of any of the external costs, as required by any tax or regulatory authority having jurisdiction over the matter, any resulting difference in the indicated external costs shall be treated as a surcharge in accordance with Schedule C and the Policy.

5.4. Any Workers' Compensation Policy may provide that dividends may be granted by the Board of Directors of the Company. If declared by the Board, any such dividends will be limited to the amount by which the audit adjusted written premium exceeds the amount of the Company's retained premium for each Workers' Compensation Policy as set forth in Schedule B. In the event that the written premium, following an audit adjustment, is less than the corresponding Company retained premium shown in Schedule B, the difference shall be due and payable by the Insured upon receipt of written notice from the Company pursuant to the Policy. Under California law, it is unlawful for the Company to promise the future payment of dividends under an unexpired workers' compensation policy or to

misrepresent the conditions for dividend payment. Dividends are payable only pursuant to conditions determined by the Company's Board of Directors or other governing board following policy expiration.

**6. Allocated Loss Adjustment Expenses**

As specified in Schedule A and the Policy, in addition to the payment of its share of each Loss, the Insured will be liable for a proportionate share of Allocated Loss Adjustment Expenses in the same ratio as the Insured's Retention bears to the total claim settlement or judgment under any one of the Policies. For purposes of such proration, any extra-contractual, punitive or exemplary damages will be excluded from the amount of the Loss. Allocated Loss Adjustment Expenses with respect to Losses which are entirely within Insured's Retention, as well as claims which are successfully defended and result in no Loss payments, will not be prorated but will be fully the responsibility of the Insured.

Each Policy for which Schedule A specifies that the Insured's Retention includes both Loss and Allocated Loss Adjustment Expenses, the Insured shall be responsible for all Allocated Loss Adjustment Expenses incurred with respect to each Loss, up to but not exceeding the amount of the Insured's Retention.

**7. Hold Harmless – Not Applicable to California Worker's Compensation Coverage**

In consideration of the Company's agreement to enter into this Agreement and to issue each Policy on the terms and conditions set forth in this Agreement, and to enter into an agreement with the Insured or a third party for the administration of claims in accordance with Section 11 below, the Insured hereby unconditionally agrees to indemnify, defend and hold the Company harmless from and against all claims, Losses, costs and expenses which the Company may suffer or incur under each Policy, this Agreement, any agreement for claims administration by the Insured or a third party or any other contracts(s) entered into or certificates or other evidence of insurance issued by the Company or an agent or broker at the request of the Insured or for which the Company may be held liable by a final order of a court or regulatory authority as a result of issuing such Policies or entering into this Agreement or any other agreement or issuing any certificates or evidence of Insurance at the request of the Insured. Such indemnification obligations do not extend, however, to Insured claims, Losses, costs and expenses that the Company has agreed to assume for its own account, or for which the Company seeks or has received a recovery from a third party other than a subsidiary or affiliate of the Insured, or to any liability suffered or incurred by the Company as a direct result of its sole negligence, willful misconduct, or failure to perform its obligations under this Agreement and each Policy. The Indemnification Obligations of the Insured hereunder are not limited by, but are in addition to the Insured's Retention, and will remain in full force and effect, notwithstanding any change in the ownership or control of the Insured or its subsidiaries or affiliates insured under each Policy, and will survive any termination of this Agreement.

**8. No Aggregate or Stop Loss Coverage**

Notwithstanding the limits of the Insured's Retention as to any one Occurrence, there is no limitation of the Insured's liability on a cumulative or aggregate basis under the terms and conditions of this Agreement, and it is understood that the Company does not undertake to limit the Insured's cumulative or aggregate liability through any aggregate, stop loss or similar protection.

**9. Security**

9.1. As security for all of the Insured's Obligations, the Insured must provide to the Company one or more clean, unconditional, irrevocable Letter(s) of Credit establishing credit in favor of the Company, or other security acceptable to the Company. Such Letter(s) of Credit must be issued by a bank(s) which is a member of the Federal Reserve system and is acceptable to the Company. The form of the Letter(s) of Credit must be as shown in Appendix A.

If posting a Letter of Credit, each such Letter of Credit must be issued for a term of at least twelve (12) months and shall be, by its terms, subject to an unlimited number of automatic renewals thereafter for additional terms of at least twelve (12) months, unless the issuer bank advises the Company in writing, at least thirty (30) days prior to the next expiration date, of its intention not to have the Letter(s) of Credit renewed. In that case, the Insured must furnish the Company with a replacement Letter(s) of Credit issued to the Company by an acceptable bank(s), or other security as may be acceptable to the Company, establishing credit or security in an amount equal to the credit under the Letter(s) of Credit being replaced, within not less than ten (10) business days before the expiry date. The requirement for such security will remain in place until all of the Insured's current and future Obligations have been indefeasibly paid or otherwise concluded in a manner satisfactory to the Company.

9.2. The amount of the initial required security is $32,121,000. At such times as the Company deems it appropriate or necessary, but at least annually, and until all liability with respect to the Insured's Obligations has been paid or otherwise concluded, the Company shall, applying generally accepted actuarial and credit review principles, review the security requirement. The Company shall have the sole right to determine the adequacy of the amount of security to be held. The sum of all of the Insured's Obligations which have been paid by the Insured or satisfied by sums drawn by the Company under the Letter(s) of Credit or other acceptable security held by the Company shall be subtracted to arrive at the required security. If the resulting security requirements exceed the amount of remaining credit available to the Company under the Letter(s) of Credit or other acceptable security as of the calculation date, then the Insured must provide the Company with additional acceptable security equal to such excess within fifteen (15) days of the Insured's receipt of notice of the increased security requirement. If the required security is less than the remaining credit available to the Company under the Letter(s) of Credit or other acceptable security, then the amount of such remaining credit will be reduced by the amount of such difference, and the Company will execute any document necessary in order to reduce the amount of such credits in accordance with this Section 9.

9.3 The Company or its successors in interest may draw upon any Letter of Credit, trust or other security at any time and from time to time, and such funds shall be applied without diminution because of the insolvency of the Insured or the Company for one or more of the following purposes only:

(a) to reimburse the Company for the Insured's share of Losses, Allocated Loss Adjustment Expenses and Unallocated Loss Adjustment Expenses paid by the Company;

(b) to fund an account with the Company for the full amount secured under this Agreement in the event the Insured has failed to replace timely any expiring Letter of Credit as required by Section 9.1 hereof or to adjust timely the amount secured hereunder as required by Section 9.2 hereof, and such failure would result in a deficiency in the total security provided by the Insured;

(c) to fund an account with the Company for the full amount secured in the event of the filing of a voluntary or involuntary petition in bankruptcy by the Insured, the insolvency of the Insured, the admission in writing by the Insured of its inability to pay its debts as they become due, or a general assignment by the Insured of its assets for the benefit of creditors;

(d) to pay any other amounts the Company claims are due to it under each Policy or this Agreement.

In the event the Company draws upon a Letter of Credit or other security pursuant to items (b), (c) or (d) above, the Company will be free to hold the proceeds thereof, without liability for interest thereon, until the Insured has fully remedied the circumstances for which the draw was made, whereupon the Company shall promptly return the proceeds held by it, less portions allocable to amounts due it under item (a) above, upon receipt of written instructions from the Insured, signed by a duly authorized officer of the Insured, indicating to whom such return is to be made. The Company shall have no obligation or liability to remit to the Insured any investment income thereupon.

**10. Claims Administration**

10.1 Claims arising under Policies issued by the Company shall be administered by a third party claims administrator approved by, and under a contract acceptable to Company or, when approved by Company, self administered by the Insured under an acceptable separate written contract. Whether a third party claims administrator or the Insured itself, the party administering claims must: (i) provide a monthly report to Company showing the status of all claims, including details of payments and outstanding reserves in a format acceptable to Company; (ii) comply with all adjuster licensing laws; (iii) abide by the applicable state insurance claims settlement practices laws and regulations; (iv) screen all claimants' names under the Specially Designated Nationals and Blocked Persons list published by the Office of Foreign Asset Control and follow applicable reporting requirements; (v) prepare Form 1099 Miscellaneous Income reports on their behalf for filing with the Internal Revenue Service as to all Losses paid under each Policy; (vi) comply with such other reporting or screening requirements as provided under applicable laws or regulations; and (vii) in the case of the Insured, provide the funding for the payment of all Losses and Allocated Loss Adjustment Expenses under each Policy.

10.2 If the Insured wishes to change the administrator of the claims arising under Policies, whether the administrator be the Insured or a third party claims administrator, the Insured must provide the Company with a written request with the identity of the replacement administrator not less than sixty (60) days in advance of the requested change date. If the Insured requests the transfer of open claim files to the replacement administrator, it must provide the Company with the written request not less than ninety (90) days in advance of the requested change date. Any such replacement or transfer is subject to the Company's approval and the Insured's payment of a fee to be determined by the Company. The Insured and the replacement administrator must satisfy all other requirements of this Section 11 for the change or transfer to be effective.

10.3 If claims arising under each Policy are administered by a third party claims administrator, the fees and expenses for such services will be strictly the obligation of the Insured. The Insured's Obligation to pay the fees and expenses of the third party claims administrator is not limited by the Insured's Retention. The Insured will fund an imprest account (Escrow Account) to be used for the payment of Losses and Allocated Loss Adjustment Expenses paid under each Policy. In the event said funds are deemed insufficient by the Company or the third party administrator, it will be the responsibility of the Insured to replenish and/or increase the funds to the required level.

10.4 Any salvages or subrogation recoveries obtained with respect to Losses shall be applied first to reimburse the Company with respect to that portion of each Loss, if any, which exceeds the Insured's Retention, excluding Allocated Loss Adjustment Expenses, and the balance to reimburse the Insured with respect to the Insured's Retention on each such Loss. The expenses incurred in obtaining such salvages or subrogation recoveries shall be borne by each party in the same proportion that each party benefits from the recoveries.

10.5 It is understood and agreed that in the event of any disagreement as to case reserves, Allocated Loss Adjustment Expenses, claims handling decisions, the choice of defense counsel or claims administrators, the final authority will rest with the Company in its sole discretion. In the event that the Insured or its third party claims administrator ceases to provide the services required of it or is unable to provide such services, for whatever reason, and an acceptable replacement is not immediately engaged, the Company will have the option of selecting a claims administrator of its own choice or assuming the claims administration function itself until an acceptable claims administrator is selected. For any such period of time, the Company shall be entitled to receive claims administration fees and reimbursement equal to the greater of what the unacceptable claims administrator would have been paid for the same services, or to what any one of the national claims administration firms would have charged for the same services.

**11. Breach of Obligations**

If the Insured fails to pay or otherwise perform in a timely manner any Obligation due the Company hereunder or under a Policy at any time during the term of this Agreement, and if such failure continues for at least ten (10) business days following the Insured's receipt of written notice of such failure, the Company shall, at its sole discretion have the option of cancelling that Policy due to nonperformance or nonpayment in accordance with the provisions of that Policy subject to applicable law and, pursuant to Section 10.3 hereinabove, have the option of drawing on the Letter(s) of Credit or other security furnished to it under this Agreement in payment of the Obligations due from the Insured, but shall be under no obligation to do so. Alternatively, the Company may terminate the financing related to the Insured's insurance coverages by converting the applicable Policy(ies) to a guaranteed cost rating plan using the Company's filed and approved rates in effect as of the Policy(ies) effective date, and the entire amount of standard premium thereunder shall be immediately due.

**12. Renewal Option**

The Company is under no obligation, and unless otherwise agreed to in writing, the Company shall not be under any obligation in the future, to renew any of the coverages under each Policy or to offer renewal of the coverages under the same terms and conditions following the expiration of any Policy. If the Company elects not to renew and/or to cancel coverage, it will furnish to the Insured notice of its intent not to renew and/or cancel consistent with the terms and conditions of each Policy.

**13. Joint Obligations**

The Obligations set forth in this Agreement are Obligations of the Insured and its insured subsidiaries and affiliates jointly and severally. While the Company agrees to look primarily to the Insured for all such Obligations, its recourse is not limited to the Insured, and the Company has the right at all times to hold any or all of the insured subsidiaries and affiliates liable for any Obligations due it. The Insured hereby expressly represents and warrants that it is authorized to enter into this Agreement on behalf of, and to bind, its insured subsidiaries and affiliates to this Section 13 and all of the other terms and conditions hereof, and stipulates that the foregoing representation and warranty is material and has been specifically relied upon by the Company in entering into this Agreement and agreeing to issue each Policy under this Agreement.

**14. Financial Statements, Access to Records**

14.1 Annually while this Agreement remains in force, the Insured will make available to the Company copies of audited financial statements of the Insured and its insured subsidiaries and affiliates and the Insured's Forms 10-K and 10-Q Annual and Quarterly Reports, each of which will be made available to the Company within thirty (30) business days after the date on which such documents are filed with the Securities and Exchange Commission. In the event the Insured ceases to be a reporting company required to file such reports, it will provide the Company with copies of quarterly financial statements certified by its chief financial officer and annual financial statements certified by independent auditors within sixty (60) days after the end of each calendar quarter and within one hundred-twenty (120) days after the end of each calendar year while this Agreement remains in effect.

14.2 At all times while this Agreement remains in effect, the Company will have full and free access to the books and records of the Insured, its subsidiaries and affiliates insured under each Policy, and those of the third party claims administrator(s) described above, as respects information pertaining to the subject coverages. Such access will be limited, however, to normal business hours and shall be afforded only at reasonable intervals and upon reasonable prior written notice.

**15. Term and Termination**

15.1 This Agreement shall remain in full force and effect until all of the Insured's Obligations have been indefeasibly paid in full or otherwise satisfactorily concluded and will survive the expiration as well as any cancellation of each Policy.

15.2 Notwithstanding Section 15.1 above, this Agreement shall terminate:

(a) by mutual written consent;

(b) when the Company notifies the Insured that the Insured's Obligations have been fully and indefeasibly discharged; or

**16. Entire Agreement, Amendment**

[Apart from any agreement entered into for the administration of claims by a third party claims administrator,] this Agreement, together with each Policy issued hereunder, represents the entire agreement between the parties with respect to the subject matter hereof. This Agreement may only be changed by written amendment signed by duly authorized officers of the respective parties. No other changes will be binding or enforceable.

**17. Governing Law**

This Agreement will be governed in all respects by the laws of the State of Illinois, unless the law of another state is required by the Policy, applicable law or regulation.

**18. Notices**

All notices or other communications required hereunder will be in writing, sent by registered mail to:

**OLD REPUBLIC INSURANCE COMPANY**
**445 South Moorland Rd., Suite 300**
**Brookfield, WI 53005**

**DAUGHTERS OF CHARITY HEALTH SYSTEM**
**203 Redwood Shores Parkway, Suite 700**
**Redwood, CA 94065**

or such other addresses as may be designated in the same manner from time to time.

**19. No Waiver**

The failure on any occasion by either party to enforce the terms of this Agreement will not be deemed or construed as a waiver of that party's right to enforce those or any other terms of this Agreement on any other occasion.

**20. Construction**

The terms and conditions of this Agreement will be liberally construed so as to give the fullest possible effect to the intentions of the parties.

**21. Severability**

If any term or provision of this Agreement is in violation of the law of any state, such term or provision shall be void in the jurisdiction(s) where it is unlawful. The remainder of this Agreement shall remain binding on the parties so that the terms of this Agreement are binding only to the extent lawful under applicable laws. If any provision of this Agreement is determined by a court of law to be unenforceable, the parties hereto agree, and it is their desire, that the court shall modify such provision to the extent necessary to be deemed enforceable by such court. As so modified, the provision shall be binding upon the parties as if originally set forth herein.

**22. Assignment**

Neither party may assign any of its rights or obligations under this Agreement without the prior written consent of the other party.

**23. Remedies**

The rights and remedies granted to the parties hereunder will be in addition to, and not in lieu of, any rights or remedies they may otherwise have.

**24. Successors**

The terms and conditions of this Agreement are binding upon and will inure to the benefit of the successors and assigns of the parties hereto.

**25. Execution**

This Agreement may be executed in counterparts, with signature pages exchanged by any commercially reasonable means, including by facsimile or electronic mail.

**IN WITNESS WHEREOF,** the parties hereto have caused this Agreement to be executed by their duly authorized officers as of the Effective Date.

**ATTEST:**

**OLD REPUBLIC INSURANCE COMPANY**

BY: _____
TITLE: Vice President
DATE: 7/31/15

**ATTEST:**

**DAUGHTERS OF CHARITY HEALTH SYSTEM** for itself and on behalf of its insured subsidiaries and affiliates

BY: _____
TITLE: VP, Risk Management & Corporate Responsibility Officer
DATE: 8/6/15

APPENDIX A – LETTER OF CREDIT

# BANK LETTERHEAD

ISSUE DATE: _____

**IRREVOCABLE LETTER OF CREDIT NO.** _____

**To Beneficiary:**
Old Republic Insurance Company
c/o Old Republic Risk Management
445 South Moorland Road, Suite 300
Brookfield, WI 53005
Attn: Chief Financial Officer

For Internal Identification Purposes Only:

**Applicant:** _____

We hereby establish this Irrevocable Letter of Credit in favor of the aforesaid addressee ("Beneficiary") for drawings up to United States $_____ effective immediately. This Letter of Credit is issued, presentable and payable at our office at (issuing bank's address) and expires with our close of business on _____, 20____.

The term "Beneficiary" includes any successor by operation of law of the named Beneficiary including, without limitation, any liquidator, rehabilitator, receiver or conservator.

We hereby undertake to promptly honor your sight draft(s) drawn on us, indicating our Credit No. _____, for all or any part of this Credit if presented at our office specified in Paragraph 1 on or before the expiry date or any automatically extended expiry date.

Except as expressly stated herein, this undertaking is not subject to any agreement, condition or qualification. The obligation of (issuing bank) under this Letter of Credit is the individual obligation of (issuing bank), and is in no way contingent upon reimbursement with respect thereto.

It is a condition of this Letter of Credit that it is deemed to be automatically extended without amendment for one (1) year from the expiry date hereof, or any future expiration date, unless at least thirty (30) days prior to any expiration date we notify you by registered mail that we elect not to consider this Letter of Credit renewed for any such additional period.

This Letter of Credit is subject to and governed by the Laws of the State of New York and the Uniform Customs and Practice for Documentary Credits (2007 Revision) International Chamber of Commerce, Publication No. 600 and, in the event of any conflict, the Laws of the State of New York will control. If this Credit expires during an interruption of business as described in Article 36 of said Publication 600, the bank hereby specifically agrees to effect payment if this Credit is drawn against within 30 days after the resumption of business.

Very truly yours,
_____ (Issuing Bank)

By: _____
(Authorized Signature)

# OLD REPUBLIC INSURANCE COMPANY

## WORKERS' COMPENSATION AND EMPLOYERS' LIABILITY INSURANCE POLICY

## PROGRAM AGREEMENT
## SCHEDULE A

An executed copy of WC 95 06 02 will be attached to your policy.

# OLD REPUBLIC INSURANCE COMPANY

## WORKERS' COMPENSATION AND EMPLOYERS' LIABILITY INSURANCE POLICY

## PROGRAM AGREEMENT
## SCHEDULE B
## COMPANY DEDUCTIBLE PREMIUM

An executed copy of WC 95 06 03 will be attached to your policy.

# OLD REPUBLIC INSURANCE COMPANY

## WORKERS' COMPENSATION AND EMPLOYERS' LIABILITY INSURANCE POLICY

## PROGRAM AGREEMENT
## SCHEDULE C
## PREMIUM PAYMENT

An executed copy of WC 95 06 04 will be attached to your policy.

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY** **WC 34 03 01 C**

(Ed. 3-10)

POLICY NUMBER: MWC 310639 00

## OHIO EMPLOYERS LIABILITY COVERAGE ENDORSEMENT

This endorsement applies only to work in Ohio.

A. Part One (Workers Compensation Insurance) does not apply to work in Ohio.

B. Part Two (Employers Liability Insurance) applies to work in Ohio as though it were shown in Item 3.A. of the Information Page.

C. Part Two (Employers Liability Insurance), C. **Exclusions** is changed by adding these exclusions.

C. **Exclusions**

This insurance does not cover:

5. bodily injury intentionally caused or aggravated by you, or bodily injury resulting from an act which is determined to have been committed by you with the belief that an injury is substantially certain to occur;
14. bodily injury to an employee when you are deprived of common law defenses or are subject to penalty because of your failure to secure your obligations under the workers compensation law of Ohio or otherwise fail to comply with that law.

DATE OF ISSUE: 07-21-17
**WC 34 03 01 C**
(Ed. 3-10)

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Policy Number
MWC 310639 00

**ENDORSEMENT**

## OLD REPUBLIC INSURANCE COMPANY

Insured Name VERITY HEALTH SYSTEM OF

Policy Effective Date: 07-01-2017
12:01 A.M., Standard Time

Agent Name LOCKTON COMPANIES

Agent No. 540

**THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.**

IN CONSIDERATION OF RETURN ASSESSMENTS AND SURCHARGES OF $13,429,IT IS HEREBY UNDERSTOOD AND AGREED THAT THE POLICY INFORMATION PAGE IS AMENDED AS FOLLOWS:

SPECIAL ASSESSMENTS, SURCHARGES & POLICY FEES: $138,722
TOTAL ESTIMATED ANNUAL PREMIUM: $1,646,777
TOTAL PAYABLE: $ 1,785,499

THE ASSESSMENTS AND SURCHARGES ARE AS FOLLOWS:

| | |
|---|---|
| CALIFORNIA REVOLVING FUND | $ 33,650 |
| CALIFORNIA FRAUD ASSESSMENT | $ 18,019 |
| CALIFORNIA CIGA SURCHARGE | $ 19,507 |
| CALIFORNIA UNINSURED BENEFITS (UEBT) | $ 7,756 |
| CALIFORNIA SUBSEQUENT INJURIES (SIBT) | $ 14,361 |
| CALIFORNIA OCCUPATIONAL SAFETY & HEALTH FUND | $ 24,796 |
| CALIFORNIA LECF ASSESSMENT | $ 20,633 |

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.
All other terms and conditions of this Policy remain unchanged.

(The information below is required to be completed only when this endorsement is issued subsequent to the policy effective date.)

Endorsement Effective Date: 07-01-17 , this endorsement forms part of Policy Number: MWC 310639 00

Insured Name: VERITY HEALTH SYSTEM OF

Policy Effective Date: 07-01-2017

TO BE ADJUSTED
AT TIME OF AUDIT

NCCI Carrier Code: 11509

Endorsement No: 001

WC 89 06 00 B

Page 1

## POLICYHOLDER NOTICE INDEX

| ACCOUNT NUMBER | POLICY NUMBER | PREVIOUS POLICY NUMBER | EFFECTIVE DATE - EXPIRATION DATE |
|---|---|---|---|
| 0540 | MWC 310639 00 | MWC 307961 00 | 07-01-2017 07-01-2018 |

NOTICES ARE NOT PART OF THE POLICY AND DO NOT PROVIDE COVERAGE

| | |
|---|---|
| ORRM 618E | 10-13 NOTIFICATION TO POLICYHOLDERS OF LOSS |
| ORRM 621 | 05-99 CA IMPORTANT INFORMATION |
| PN 04 99 01 F | 03-15 CA POLICYHOLDER NOTICE |
| PN 04 99 02 B | 05-02 CA POLICYHOLDER NOTICE |

# NOTIFICATION TO POLICYHOLDERS OF ACCIDENT PREVENTION SERVICES

**CALIFORNIA, COLORADO, MAINE, MINNESOTA, MISSOURI, MONTANA, NEVADA, OREGON**

**Old Republic Insurance Company**

**is required by law to provide policyholders with certain loss control services. If you would like more information or have any questions, please call (877) 797-3400 . +**

**Old Republic Insurance Company**
**445 South Moorland Road, Suite 300**
**Brookfield, WI 53005**

**ARKANSAS**

**Old Republic Insurance Company is required to provide its policyholders with certain accident prevention services at no additional cost as required by Ark. Code Ann. §11-9-409(d) and AWCC Rule 32. If you would like more information, call Old Republic loss control at (877) 797-3400. If you have any questions about this requirement, call the Health and Safety Division, Arkansas Workers' Compensation Commission at 1-800-622-4472.**

**KANSAS**

**Old Republic Insurance Company has Accident Prevention Services available to our policyholders. These include surveys, recommendations, training programs, consultations, analyses of accident causes, industrial hygiene and industrial health services. These services are intended to assist policyholders implement programs of accident prevention.**

**OKLAHOMA**

**As an insurance company in the state of Oklahoma who provides Workers' Compensation Insurance, we offer workplace safety services to policyholders as mandated by Oklahoma House Bill 1002 Section 11.**
**The Old Republic Loss Control Department's services shall be adequate to implement workplace safety plans as required by the nature of the policyholder's operations and shall include, but not be limited to surveys, recommendations, training programs, consultations, analyses of accident causes, industrial hygiene and industrial health services.**

**PENNSYLVANIA**
**ACCIDENT AND ILLNESS PREVENTION SERVICES**

**Old Republic Insurance Company has Accident and Illness Prevention Services available to our policyholders. These include surveys, recommendations, training programs, consultations, analyses of accident causes, industrial hygiene and industrial health services. These services are intended to assist policyholders implement programs of accident prevention.**
**A premium discount of 5% is available to employers who form a certified workplace safety committee as described in PA Statutes, Title 77, § 1038. The discount may be subject to change when rate revisions occur.**

**TEXAS**

**Pursuant to Texas Labor Code §411.066, Old Republic Insurance Company is required to notify its policyholders that accident prevention services are available from Old Republic Insurance Company at no additional charge. These services may include surveys, recommendations, training programs, consultations, analyses of accident causes, industrial hygiene, and industrial health services. Old Republic Insurance Company is also required to provide return-to-work coordination services as required by Texas Labor Code §413.021 and to notify you of the availability of the return-to-work reimbursement program for employers under Texas Labor Code §413.022. If you would like more information, contact Old Republic Insurance Company at 800-344-4300 and APServices@ORRM.com for accident prevention services or 800-747-5256 and RTW@orrm.com for return-to-work coordination services. For information about these requirements call the Texas Department of Insurance, Division of Workers' Compensation (TDI-DWC) at 1-800-687-7080 or for information about the return-to-work reimbursement program for employers call the TDI-DWC at (512) 804-5000. If Old Republic Insurance Company fails to respond to your request for accident prevention services or return-to-work coordination services, you may file a complaint with the TDI-DWC in writing at http://www.tdi.texas.gov or by mail to Texas Department of Insurance, Division of Workers' Compensation, MS-8, at 7551 Metro Center Drive, Austin, Texas 78744-1645**

ORRM 618E (10-13)

# IMPORTANT INFORMATION

**California Insurance Guarantee Association**

Companies writing property and casualty insurance business in California are required to participate in the California Insurance Guarantee Association. If a company becomes insolvent the California Insurance Guarantee Association settles unpaid claims and assesses each insurance company for its fair share. California law requires all companies to surcharge policies to recover these assessments. If your policy is surcharged with "CA Surcharge," an amount will be displayed on your premium notice.

# POLICYHOLDER NOTICE

## YOUR RIGHT TO RATING AND DIVIDEND INFORMATION

**I. Information Available to You**

**A. Information Available from Us – Old Republic Insurance Company.**

(1) General questions regarding your policy should be directed to your Assistant Underwriter.

**Old Republic Risk Management, Inc.**
**445 S. Moorland Road Suite 300**
**Brookfield, WI 53005**
**Telephone: 262-797-3400**
**Fax#: 262-797-0486**

(2) **Dividend Calculation.** If this is a participating policy (a policy on which a dividend may be paid), upon payment or non-payment of a dividend, we shall provide a written explanation to you that sets forth the basis of the dividend calculation. The explanation will be in clear, understandable language and will express the dividend as a dollar amount and as a percentage of the earned premium for the policy year on which the dividend is calculated.

(3) **Claims Information.** Pursuant to Sections 3761 and 3762 of the California Labor Code, you are entitled to receive information in our claim files that affects your premium. Copies of documents will be supplied at your expense during reasonable business hours.

For claims covered under this policy, we will estimate the ultimate cost of unsettled claims for statistical purposes eighteen months after the policy becomes effective and will report those estimates to the Workers' Compensation Insurance Rating Bureau of California (WCIRB) no later than twenty months after the policy becomes effective. The cost of any settled claims will also be reported at that time. At twelve-month intervals thereafter, we will update and report to the WCIRB the estimated cost of any unsettled claims and the actual final cost of any claims settled in the interim. The amounts we report will be used by the WCIRB to compute your experience modification if you are eligible for experience rating.

**B. Information Available from the Workers' Compensation Insurance Rating Bureau of California**

(1) The WCIRB is a licensed rating organization and the California Insurance Commissioner's designated statistical agent. As such, the WCIRB is responsible for administering the *California Workers' Compensation Uniform Statistical Reporting Plan – 1995* (USRP) and the *California Workers' Compensation Experience Rating Plan – 1995* (ERP). Contact information for the WCIRB is: WCIRB, 1221 Broadway, Suite 900, Oakland, CA 94612, Attention: Customer Service. You may also contact WCIRB Customer Service at 1-888-229-2472, by fax at 415-778-7272, or via the Internet at the WCIRB's website: http://www.wcirb.com. The regulations contained in the USRP and the ERP are available for public viewing through the WCIRB's website.

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(2) **Policyholder Information.** Pursuant to California Insurance Code (CIC) Section 11752.6, upon written request, you are entitled to information relating to loss experience, claims, classification assignments, and policy contracts as well as rating plans, rating systems, manual rules, or other information impacting your premium that is maintained in the records of the WCIRB. Complaints and Requests for Action requesting policyholder information should be forwarded to: WCIRB, 1221 Broadway, Suite 900, Oakland, CA 94612, Attention: Custodian of Records. The Custodian of Records can be reached by telephone at 415-777-0777 and by fax at 415-778-7272.

(3) **Experience Rating Form**. Each experience rated risk may receive a single copy of its current Experience Rating Form free of charge by completing a Policyholder Rate Sheet Request Form on the WCIRB's website at http://www.wcirb.com/ratesheet. The Experience Rating Form will include a Loss-Free Rating, which is the experience modification that would have been calculated if $0 (zero) actual losses were incurred during the experience period. This hypothetical rating calculation is provided for informational purposes only.

## II. Dispute Process

You may dispute our actions or the actions of the WCIRB pursuant to CIC Sections 11737 and 11753.1.

### A. Our Dispute Resolution Process.

You may send us a written Complaint and Request for Action requesting that we reconsider a change in a classification assignment that results in an increased premium and/or requesting that we review the manner in which our rating system has been applied in connection with the insurance afforded or offered you. Written Complaints and Requests for Action should be forwarded to:

(Insurer's name, address, telephone and fax numbers for office designated to receive complaints.)

CSC - LAWYERS INCORPORATING SERVICE
2730 GATEWAY OAKS DRIVE
SUITE 100
SACRAMENTO, CA 95833
PHONE: (916) 641-5100
FAX: (916) 614-5151

After you send your Complaint and Request for Action, we have 30 days to send you a written notice indicating whether or not your written request will be reviewed. If we agree to review your request, we must conduct the review and issue a decision granting or rejecting your request within 60 days after sending you the written notice granting review. If we decline to review your request, if you are dissatisfied with the decision upon review, or if we fail to grant or reject your request or issue a decision upon review, you may appeal to the insurance commissioner as described in paragraph II.C., below.

**B. Disputing the Actions of the WCIRB.** If you have been aggrieved by any decision, action, or omission to act of the WCIRB, you may request, in writing, that the WCIRB reconsider its decision, action, or omission to act. You may also request, in writing, that the WCIRB review the manner in which its rating system has been applied in connection with the insurance afforded or offered you. For requests related to classification disputes, the reporting of experience, or coverage issues, your initial request for review must be received by the WCIRB within 12 months after the expiration date of the policy to which the request for review pertains, except if the request involves the application of the Revision of Losses rule. For requests related to your experience modification, your initial request for review must be received by the WCIRB within 6 months after the issuance, or 12 months after the expiration date, of the experience modification to which the request for review pertains, whichever is later, except if the request for review involves the application of the Revision of Losses rule. If the request involves the Revision of Losses rule, the time to state your appeal may be longer. (See Section VI, Rule 14 of the ERP).

You may commence the review process by sending the WCIRB a written Inquiry. Written Inquiries should be sent to: WCIRB, 1221 Broadway, Suite 900, Oakland, CA 94612, Attention: Customer Service. Customer Service can be reached by telephone at 1-888-229-2472, and by fax at 415-778-7272.

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If you are dissatisfied with the WCIRB's decision upon an Inquiry, or if the WCIRB fails to respond within 90 days after receipt of the Inquiry, you may pursue the subject of the Inquiry by sending the WCIRB a written Complaint and Request for Action. After you send your Complaint and Request for Action, the WCIRB has 30 days to send you written notice indicating whether or not your written request will be reviewed. If the WCIRB agrees to review your request, it must conduct the review and issue a decision granting or rejecting your request within 60 days after sending you the written notice granting review. If the WCIRB declines to review your request, if you are dissatisfied with the decision upon review, or if the WCIRB fails to grant or reject your request or issue a decision upon review, you may appeal to the insurance commissioner as described in paragraph II.C., below. Written Complaints and Requests for Action should be forwarded to: WCIRB, 1221 Broadway, Suite 900, Oakland, CA 94612, Attention: Complaints and Reconsiderations. The WCIRB's telephone number is 1-888-229-2472, and the fax number is 415-371-5204.

C. **California Department of Insurance – Appeals to the Insurance Commissioner.** If, after you follow the appropriate dispute resolution process described above, we or the WCIRB decline to review your request, if you are dissatisfied with the decision upon review, or if we or the WCIRB fail to grant or reject your request or issue a decision upon review, you may appeal to the insurance commissioner pursuant to CIC Sections 11737, 11752.6, 11753.1 and Title 10, California Code of Regulations, Section 2509.40 et seq. You must file your appeal within 30 days after we or the WCIRB send you the notice rejecting review of your Complaint and Request for Action or the decision upon your Complaint and Request for Action. If no written decision regarding your Complaint and Request for Action is sent, your appeal must be filed within 120 days after you sent your Complaint and Request for Action to us or to the WCIRB. The filing address for all appeals to the insurance commissioner is:

Administrative Hearing Bureau
California Department of Insurance
45 Fremont Street, 22nd Floor
San Francisco, California 94105

You have the right to a hearing before the insurance commissioner, and our action, or the action of the WCIRB, may be affirmed, modified, or reversed.

**III. Resources Available to You in Obtaining Information and Pursuing Disputes**

A. **Policyholder Ombudsman.** Pursuant to California Insurance Code Section 11752.6, a policyholder ombudsman is available at the WCIRB to assist you in obtaining and evaluating the rating, policy, and claims information referenced in I.A. and I.B., above. The ombudsman may advise you on any dispute with us, the WCIRB, or on an appeal to the insurance commissioner pursuant to Section 11737 of the Insurance Code. The address of the policyholder ombudsman is WCIRB, 1221 Broadway, Suite 900, Oakland, California 94612, Attention: Policyholder Ombudsman. The policyholder ombudsman can be reached by telephone at 415-778-7159 and by fax at 415-371-5288.

B. **California Department of Insurance – Information and Assistance.** Information and assistance on policy questions can be obtained from the Department of Insurance Consumer HOTLINE, 1-800-927-HELP (4357) or http://www.insurance.ca.gov. For questions and correspondence regarding appeals to the Administrative Hearing Bureau, see the contact information in paragraph II.C.

This notice does not change the policy to which it is attached.

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PN 04 99 02 B
(Ed. 5-02)

# POLICYHOLDER NOTICE

## CALIFORNIA WORKERS' COMPENSATION INSURANCE RATING LAWS

Pursuant to Section 11752.8 of the California Insurance Code, we are providing you with an explanation of the California workers' compensation rating laws.

1. We establish our own rates for workers' compensation. Our rates, rating plans, and related information are filed with the insurance commissioner and are open for public inspection.

2. The insurance commissioner can disapprove our rates, rating plans, or classifications only if he or she has determined after public hearing that our rates might jeopardize our ability to pay claims or might create a monopoly in the market. A monopoly is defined by law as a market where one insurer writes 20% or more of that part of the California workers' compensation insurance that is not written by the State Compensation Insurance Fund. If the insurance commissioner disapproves our rates, rating plans, or classifications, he or she may order an increase in the rates applicable to outstanding policies.

3. Rating organizations may develop pure premium rates that are subject to the insurance commissioner's approval. A pure premium rate reflects the anticipated cost and expenses of claims per $100 of payroll for a given classification. Pure premium rates are advisory only, as we are not required to use the pure premium rates developed by any rating organization in establishing our own rates.

4. We must adhere to a single, uniform experience rating plan. If you are eligible for experience rating under the plan, we will be required to adjust your premium to reflect your claim history. A better claim history generally results in a lower experience rating modification; more claims, or more expensive claims, generally result in a higher experience rating modification. The uniform experience rating plan, which is developed by the insurance rating organization designated by the insurance commissioner, is subject to approval by the insurance commissioner.

5. A standard classification system, developed by the insurance rating organization designated by the insurance commissioner, is subject to approval by the insurance commissioner. The standard classification system is a method of recognizing and separating policyholders into industry or occupational groups according to their similarities and/or differences. We can adopt and apply the standard classification system or develop and apply our own classification system, provided we can report the payroll, expenses, and other costs of claims in a way that is consistent with the uniform statistical plan or the standard classification system.

6. Our rates and classifications may not violate the Unruh Civil Rights Act or be unfairly discriminatory.

7. We will provide an appeal process for you to appeal the way we rate your insurance policy. The process requires us to respond to your written appeal within 30 days. If you are not satisfied with the result of your appeal, you may appeal our decision to the insurance commissioner.

## CALIFORNIA WORKERS' COMPENSATION INSURANCE NOTICE OF NONRENEWAL

Section 11664 of the California Insurance Code requires us, in most instances, to provide you with a notice of nonrenewal. Except as specified in paragraphs 1 through 6 below, if we elect to nonrenew your policy, we are required to deliver or mail to you a written notice stating the reason or reasons for the nonrenewal of the policy. The notice is required to be sent to you no earlier than 120 days before the end of the policy period and no later than 30 days before the end of the policy period. If we fail to provide you the required notice, we are required to continue the coverage under the policy with no change in the premium rate until 60 days after we provide you with the required notice.

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PN 04 99 02 B
(Ed. 5-02)

We are not required to provide you with a notice of nonrenewal in any of the following situations:

1. Your policy was transferred or renewed without a change in its terms or conditions or the rate on which the premium is based to another insurer or other insurers who are members of the same insurance group as us.

2. The policy was extended for 90 days or less and the required notice was given prior to the extension.

3. You obtained replacement coverage or agreed, in writing, within 60 days of the termination of the policy, to obtain that coverage.

4. The policy is for a period of no more than 60 days and you were notified at the time of issuance that it may not be renewed.

5. You requested a change in the terms or conditions or risks covered by the policy within 60 days prior to the end of the policy period.

6. We made a written offer to you to renew the policy at a premium rate increase of less than 25 percent.

   (A) If the premium rate in your governing classification is to be increased 25 percent or greater and we intend to renew the policy, we shall provide a written notice of a renewal offer not less than 30 days prior to the policy renewal date. The governing classification shall be determined by the rules and regulations established in accordance with California Insurance Code Section 11750.3(c).

   (B) For purposes of this Notice, "premium rate" means the cost of insurance per unit of exposure prior to the application of individual risk variations based on loss or expense considerations such as scheduled rating and experience rating.

This notice does not change the policy to which it is attached.

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# MARILLAC INSURANCE COMPANY, LTD.

UNAUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30 2018




Managed By:

Aon Insurance Managers (Cayman) Ltd.

# MARILLAC INSURANCE COMPANY, LTD.

Unaudited Financial Statements

FOR THE YEAR ENDED JUNE 30 2018

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| Trial Balance | 8 |

**MARILLAC INSURANCE COMPANY, LTD.**

Balance Sheets

As of June 30, 2018

(Unaudited)

(Expressed in US Dollars)

| | Note | As at June 30, 2018 | As at May 31, 2018 | As at June 30, 2017 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash & Cash Equivalents | 2 | 1,452,770 | 1,106,608 | 903,799 |
| Restricted Cash | 3 | 2,765,296 | 2,796,738 | 5,106,211 |
| Investments at Market Value | 4 | 40,028,790 | 40,173,063 | 39,926,557 |
| Loss Fund Account | 5 | 983,296 | 613,333 | 489,977 |
| Accrued investment income | 6 | 177,571 | 142,980 | 155,457 |
| Premium Receivable | 7 | 4,641,405 | 4,641,405 | 3,112,000 |
| Provision for recoverable reinsurance | | 1,179,038 | 1,418,151 | 1,607,400 |
| Deferred Reinsurance | | 905,520 | 1,004,665 | 1,162,358 |
| Prepaid Expenses | 8 | 37,854 | 72,060 | 39,503 |
| **Total Assets** | | **52,171,540** | **51,969,003** | **52,503,262** |
| **LIABILITIES** | | | | |
| Provision for outstanding losses | 10 | 39,749,367 | 40,151,031 | 39,593,055 |
| Unearned premium reserve | | 5,551,164 | 6,632,659 | 5,834,621 |
| Premium received in advance | | 1,440,847 | - | - |
| Deferred Gain on Novation | | 42,792 | 39,653 | 39,653 |
| Accounts Payable and Accrued Expenses | 9 | 36,119 | 33,093 | 35,267 |
| **Total Liabilities** | | **46,820,289** | **46,856,436** | **45,502,596** |
| **SHAREHOLDERS EQUITY** | | | | |
| Ordinary Shares | | 120,000 | 120,000 | 120,000 |
| Retained earnings | | 6,880,666 | 6,880,666 | 8,701,850 |
| Net income | | (1,649,415) | (1,888,099) | (1,821,184) |
| **Total Shareholders' Equity** | | **5,351,251** | **5,112,567** | **7,000,666** |
| **TOTAL LIABILITIES AND CAPITAL** | | **52,171,540** | **51,969,003** | **52,503,262** |

**MARILLAC INSURANCE COMPANY, LTD.**

Statements of Income and Retained Earnings

FOR THE YEAR ENDED JUNE 30 2018

(Unaudited)
(Expressed in US Dollars)

| | Notes | *YTD income St.* **June 30, 2018** | *PTD income St.* **June 30, 2018** | *YTD income St.* **June 30, 2017** |
|---|---|---|---|---|
| **UNDERWRITING INCOME** | | | | |
| Premiums written | | 13,158,187 | - | 15,944,206 |
| Movement in Unearned Premium | | 283,457 | 1,081,495 | (1,417,513) |
| **Total Earned Premium** | | **13,441,644** | **1,081,495** | **14,526,693** |
| Reinsurance premium ceded | | (1,206,259) | - | (2,045,469) |
| Mov't in deferred reinsurance | | (256,838) | (99,145) | 147,183 |
| **Total reinsurance ceded** | | **(1,463,097)** | **(99,145)** | **(1,898,286)** |
| **TOTAL UNDERWRITING INCOME** | | **11,978,547** | **982,350** | **12,628,407** |
| Losses and Loss Expense Paid | | (12,432,426) | (859,422) | (16,371,354) |
| Mov't in Outstanding Loss Reserves | | (1,052,576) | 55,769 | 6,019,378 |
| Mov't in IBNR | | (211,180) | 565,705 | (3,623,994) |
| Mov't in recoverable reinsurance | | (428,361) | (239,113) | 436,368 |
| Mov't in discount on Loss Reserves | | 1,107,443 | (219,811) | (434,024) |
| Mvmnt on Deferred Gain | | (3,139) | (3,139) | 13,462 |
| **TOTAL UNDERWRITING EXPENSES** | | **(13,020,239)** | **(700,011)** | **(13,960,164)** |
| **NET UNDERWRITING (LOSS)/ INCOME** | | **(1,041,692)** | **282,339** | **(1,331,757)** |
| Mov't in unrealized gains and losses | | (717,624) | (75,980) | (1,647,222) |
| Realized gains and losses | | (61,302) | 19,318 | 1,014,598 |
| Other Investment income | 11 | 661,665 | 57,587 | 643,759 |
| INVESTMENT (LOSS)/ INCOME | | (117,261) | 925 | 11,135 |
| OTHER INCOME | | - | - | 7,408 |
| OPERATING EXPENSES | 12 | (490,462) | (44,580) | (507,970) |
| **NET INCOME** | | **(1,649,415)** | **238,684** | **(1,821,184)** |
| **RETAINED EARNINGS, OPENING** | | **6,880,666** | **4,992,567** | **8,701,850** |
| **RETAINED EARNINGS, CLOSING** | | **5,231,251** | **5,231,251** | **6,880,666** |

**MARILLAC INSURANCE COMPANY, LTD.**

Cash Flow Statement

As of June 30, 2018

(Unaudited)
(Expressed in US Dollars)

| | YTD June-18 | MTD June-18 | YTD June-17 |
|---|---|---|---|
| **CASH PROVIDED BY (USED IN):** | | | |
| **OPERATING ACTIVITIES** | | | |
| Net (loss) income | $ (1,649,415) | $ 238,684 | $ (1,821,184) |
| Adjustment for items not affecting cash: | | | |
| Net realized loss (gain) on sales of investments | 61,302 | (19,318) | (1,014,598) |
| Amortization of deferred gain on novation | 3,139 | 3,139 | (13,462) |
| Net change in unrealized loss on investments | 717,624 | 75,980 | 1,647,222 |
| | **(867,350)** | **298,485** | **(1,202,022)** |
| Changes in operating assets and liabilities: | | | |
| Net change in restricted cash | 2,340,915 | 31,442 | (3,196,211) |
| Purchases of investments | (4,948,064) | (85,597) | (78,254,375) |
| Proceeds on sale of investments | 4,066,905 | 173,208 | 83,747,248 |
| Loss fund account | (493,319) | (369,963) | (263,546) |
| Accrued investment income | (22,114) | (34,591) | 9,259 |
| Premium Receivable | (1,529,405) | - | (1,420,278) |
| Reinsurance recoverable | 428,362 | 239,113 | (436,369) |
| Deferred Reinsurance Expense | 256,838 | 99,145 | (147,183) |
| Prepaid expenses | 1,649 | 34,206 | (32,535) |
| Losses and loss-adjustment expenses | 156,312 | (401,664) | (1,961,360) |
| Unearned premium reserve | (283,457) | (1,081,495) | 1,417,513 |
| Accounts Payable and Accrued Expenses | 852 | 3,026 | (63,428) |
| **INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | **548,971** | **346,162** | **(1,803,287)** |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** | 903,799 | 1,106,608 | 2,707,086 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | **$ 1,452,770** | **$ 1,452,770** | **$ 903,799** |
| | - | - | - |
| **SUPPLEMENTAL DISCLOSURES:** | | | |
| (Increase)/decrease in receivable for investments sold | $ - | $ - | $ (1,187,383) |
| Increase/(decrease) in payable for investments purchased | $ - | $ - | $ (1,120,607) |

**MARILLAC INSURANCE COMPANY, LTD.**

Notes to Financial Statements

FOR THE YEAR ENDED JUNE 30 2018

(Unaudited)
(Expressed in US Dollars)

1. *Marillac Insurance Company Ltd . (the "Company") was incorporated in the Cayman Islands on December 9,2003 as an exempted company and was granted an unrestricted Class "B" Insurer's licence effective December 15, 2003,which it holds subject to the provisions of the Insurance Law of the Cayman Islands. The Insurance Law , 2010 became effective November 1, 2012 in the Cayman Islands, under the Law 2010 the Company is now classified as a Class B(i) insurer, per CIMA letter dated April 2nd, 2015.*

| | As at June 30, 2018 | As at May 31, 2018 | As at June 30, 2017 |
|---|---|---|---|
| **2. Cash and Cash Equivalents** | | | |
| *Bank of Butterfield* | 1,296,521 | 1,096,115 | 883,457 |
| *City National Bank* | 156,249 | 10,493 | 20,342 |
| **Total** | **1,452,770** | **1,106,608** | **903,799** |
| **3. Restricted Cash** | | | |
| *CNB- Cash Deposit* | 1,479,047 | 1,625,000 | 1,625,000 |
| *CNB Fixed Income A/C - Cash* | 1,281,977 | 1,166,579 | 3,477,630 |
| *CNB Richmond TIPS A/C - Cash* | 4,272 | 5,159 | 3,581 |
| **Total** | **2,765,296** | **2,796,738** | **5,106,211** |
| **4. Investments - At Cost and Market Value** | | | |
| *CNB Fixed Income A/C - Bonds* | 33,598,137 | 33,692,308 | 32,904,022 |
| *CNB Fixed Income A/C - UGL* | (1,172,640) | (1,105,566) | (481,830) |
| | 32,425,497 | 32,586,742 | 32,422,192 |
| *Richmond TIPS A/C - Bonds* | 7,943,901 | 7,918,022 | 7,818,158 |
| *Richmond TIPS A/C - UGL* | (340,608) | (331,701) | (313,793) |
| | 7,603,293 | 7,586,321 | 7,504,365 |
| **Total Market value of investments** | **40,028,790** | **40,173,063** | **39,926,557** |
| **5. Loss Fund Account** | | | |
| *Escrow Account - WC-Sedgewick* | 982,477 | 436,771 | 488,344 |
| *Escrow Account - HPL* | 819 | 176,562 | 1,633 |
| **Total** | **983,296** | **613,333** | **489,977** |

**MARILLAC INSURANCE COMPANY, LTD.**

Notes to Financial Statements

FOR THE YEAR ENDED JUNE 30 2018

(Unaudited)
(Expressed in US Dollars)

| | As at June 30, 2018 | As at May 31, 2018 | As at June 30, 2017 |
|---|---|---|---|
| **6. Aeerued Investment Income** | | | |
| *CNB Cash Deposit -Accrued Int.* | 1,022 | 953 | 209 |
| *CNB Fixed Income A/C - Accrued Int.* | 156,118 | 125,590 | 135,170 |
| *CNB Richmond TIPS A/C - Accrued Int.* | 20,431 | 16,437 | 20,078 |
| **Total** | **177,571** | **142,980** | **155,457** |
| **7. Premium Receivable** | | | |
| *HPL/GL* | 4,641,405 | 4,641,405 | 3,112,000 |
| **Total** | **4,641,405** | **4,641,405** | **3,112,000** |
| **8. Prepaid expenses** | | | |
| *Prepaid Misc Exp* | - | 29 | - |
| *Prepaid Govmnt Fees* | 5,793 | 6,758 | 5,793 |
| *Prepaid Office Chargebacks* | - | 315 | - |
| *Prepaid Mgmt Fees* | 1,000 | 10,167 | 1,000 |
| *Prepaid LOC Fees NT* | 31,061 | 54,791 | 32,710 |
| **Total** | **37,854** | **72,060** | **39,503** |
| **9. Accounts Payable and Accrued Expenses** | | | |
| *Legal Expenses* | - | - | - |
| *Investment Review* | 3,345 | 3,345 | 3,395 |
| *Accrued Inv Mngmt Fees* | 2,536 | 2,030 | 1,634 |
| *Accrued Audit Fees* | 30,238 | 27,718 | 30,238 |
| *Accrued IMAC Fees* | - | - | - |
| **Total** | **36,119** | **33,093** | **35,267** |

**MARILLAC INSURANCE COMPANY, LTD.**

Notes to Financial Statements

FOR THE YEAR ENDED JUNE 30 2018

(Unaudited)
(Expressed in US Dollars)

| | As at June 30, 2018 | As at May 31, 2018 | As at June 30, 2017 |
|---|---|---|---|
| **10. Provision for Outstanding losses** | | | |
| ***Current Portion*** | | | |
| Outstanding Loss Reserves - WC | 3,811,237 | 3,800,081 | 4,167,194 |
| Outstanding Loss Reserves - HPL/GL | 1,218,195 | 1,240,212 | 669,166 |
| IBNR - WC | 2,902,350 | 3,014,260 | 2,777,769 |
| IBNR - HPL/GL | 2,289,402 | 2,306,113 | 2,359,182 |
| Discount - WC | (1,112,577) | (1,132,542) | (901,901) |
| Discount - HPL/GL | (256,525) | (284,609) | (216,098) |
| ***Total Current Portion*** | 8,852,083 | 8,943,515 | 8,855,311 |
| ***Long Term Portion*** | | | |
| Outstanding Loss Reserves - WC | 12,759,360 | 12,722,011 | 13,951,041 |
| Outstanding Loss Reserves - HPL/GL | 4,551,202 | 4,633,459 | 2,500,017 |
| IBNR - WC | 9,716,563 | 10,091,218 | 9,299,486 |
| IBNR - HPL/GL | 8,553,256 | 8,615,687 | 8,813,955 |
| Discount - WC | (3,724,714) | (3,791,552) | (3,019,409) |
| Discount - HPL/GL | (958,383) | (1,063,306) | (807,347) |
| ***Total Long Term Portion*** | 30,897,284 | 31,207,516 | 30,737,743 |
| **Total Provision for Outstanding Losses** | **39,749,367** | **40,151,031** | **39,593,055** |
| **Summary** | | | |
| WC OSLR | 16,570,598 | 16,522,092 | 18,118,235 |
| WC IBNR & Discount | 7,781,623 | 8,181,383 | 8,155,945 |
| **Total WC** | **24,352,220** | **24,703,475** | **26,274,180** |
| HPL/GL OSLR | 5,769,397 | 5,873,671 | 3,169,183 |
| HPL/GL IBNR & Discount | 9,627,750 | 9,573,885 | 10,149,692 |
| **Total HPL/GL** | **15,397,147** | **15,447,556** | **13,318,875** |

| | As at June 30, 2018 | As at May 31, 2018 | As at June 30, 2017 |
|---|---|---|---|
| **11 Investment income** | | | |
| *Bank interest* | 568 | 541 | 420 |
| *Interest income -CNB Cash Deposit* | 812 | 744 | 522 |
| *Investment income* | 834,771 | 763,706 | 810,846 |
| *Witholding taxes paid* | - | - | (2,396) |
| *Investment management fees* | (134,239) | (124,090) | (126,144) |
| *Investment Review* | (40,247) | (36,823) | (39,489) |
| **Total** | **661,665** | **604,078** | **643,759** |

**MARILLAC INSURANCE COMPANY, LTD.**

Notes to Financial Statements

FOR THE YEAR ENDED JUNE 30 2018

(Unaudited)
(Expressed in US Dollars)

**12 Operating Expenses**

| | Year Ended June 30, 2018 | Movement June 30, 2018 | Operating Budget June 30, 2018 | Year Ended June 30, 2017 |
|---|---|---|---|---|
| *Management Fees* | 110,000 | 9,167 | 110,000 | 110,000 |
| *Audit Fees* | 30,237 | 2,519 | 59,095 | 36,018 |
| *Government Fees* | 14,210 | 2,185 | 15,000 | 17,505 |
| *Legal Fees* | 29,831 | 6,216 | 10,000 | 10,545 |
| *Travel & Meeting Fees* | 7,221 | - | 15,000 | 11,452 |
| *Office chargebacks* | 3,780 | 315 | 3,780 | 3,780 |
| *Transition costs NT to CNB* | - | - | - | 28,079 |
| *WC Escrow Bank Charges* | - | - | - | 11,950 |
| *Bank Charges* | 3,751 | 419 | 2,000 | 5,868 |
| *Letter of Credit Fees* | 291,082 | 23,730 | - | 272,425 |
| *Miscellaneous Expenses* | 350 | 29 | 500 | 348 |
| **Total** | **490,462** | **44,580** | **215,375** | **507,970** |

**MICL**

**Trial Balance**

**As of June 30, 2018**

| | 30-Jun-18 | | |
|---|---|---|---|
| | Debit | Credit | Amount Dr(Cr) |
| Cash in-transit | - | - | - |
| Bank of Butterfield | 1,296,520.96 | - | 1,296,520.96 |
| City National Bank | 156,249.38 | - | 156,249.38 |
| CNB- Cash Deposit | 1,479,046.91 | - | 1,479,046.91 |
| CNB Cash Depst Acc Int | 1,021.76 | - | 1,021.76 |
| Accounts Receivable | - | - | - |
| Premiums Receivable | 4,641,405.00 | - | 4,641,405.00 |
| Prepaid Expenses:Prepaid Investment Review | - | - | - |
| Prepaid Expenses:Prepaid Misc Exp | - | - | - |
| Prepaid Expenses:Prepaid Inv. Management Fees | - | - | - |
| Prepaid Expenses:Prepaid PPIC LOC | - | - | - |
| Prepaid Expenses:Prepaid Office Chargebacks | - | - | - |
| Prepaid Expenses:Prepaid Govmnt Fees | 5,792.76 | - | 5,792.76 |
| Prepaid Expenses:Prepaid Mngmt Fee | 999.98 | - | 999.98 |
| Prepaid Expenses:Prepaid LOC Fees | 31,061.11 | - | 31,061.11 |
| Prepaid Expenses:Prepaid Travel & Meeting | - | - | - |
| Deferred Reinsurance Expense | 905,520.45 | - | 905,520.45 |
| Escrow Account - WC-BOA | - | - | - |
| Escrow Account - HPL-Sedgewick | 818.62 | - | 818.62 |
| Escrow Account - WC-Sedgewick | 982,476.92 | - | 982,476.92 |
| Investments:NT- HY Calamos Equity Accrued | - | - | - |
| Investments:NT- HY Calamos Equity Unrealize | - | - | - |
| Investments:NT - HY Calamos Equity | - | - | - |
| Investments:Pending trades Recbl - Rich TIPS | - | - | - |
| Investments:Pending trade payable-RichTIPS | - | - | - |
| Investments:Pending trades - Calamos High Y | - | - | - |
| Investments:NT HY Calamos Accrued Int | - | - | - |
| Investments:NT HY Calamos Unrealize | - | - | - |
| Investments:NT High Yield Calamos Bonds | - | - | - |
| Investments:NT High Yield Calamos Cash | - | - | - |
| Investments:NT Richmond TIPS Accrued Intere | - | - | - |
| Investments:NT Richmond TIPS Unrealized | - | - | - |
| Investments:NT Richmond TIPS Bonds | - | - | - |
| Investments:NT Richmond TIPS Cash | - | - | - |
| Investments:CNB Richmond TIPS Accrued Intere | 20,431.00 | - | 20,431.00 |
| Investments:CNB Richmond TIPS Unrealized | - | 340,607.52 | (340,607.52) |
| Investments:CNB Richmond TIPS Bonds | 7,943,900.54 | - | 7,943,900.54 |
| Investments:CNB Richmond TIPS Cash | 4,271.70 | - | 4,271.70 |
| Investments:NT Custody Cash - Acc. Interest | - | - | - |
| Investments:NT Equity Investments -(Vanguard) | - | - | - |
| Investments:NT Equity Investment. - UGI (vang) | - | - | - |
| Investments:CNB Equity Investments -(Vanguard) | - | - | - |
| Investments:CNB Equity Investment. - UGI (vang) | - | - | - |
| Investments:NT Custody Cash | - | - | - |
| Investments:NT RI Trust A/C - Cash | - | - | - |
| Investments:NT RI Trust A/C - Bonds | - | - | - |
| Investments:NT RI Trust A/C - UGL | - | - | - |
| Investments:NT RI Trust A/C - Acc. Interest | - | - | - |
| Investments:NT Fixed Income A/C - Cash | - | - | - |
| Investments:NT Fixed Income A/C - Bonds | - | - | - |
| Investments:NT Fixed Income A/C - UGL | - | - | - |
| Investments:NT Fixed Income A/C - Acc. Int. | - | - | - |
| Investments:Pending trades Recbl - Fixdincm | - | - | - |
| Investments:Pending trades Paybl - Fixdincm | - | - | - |
| Investments:CNB Fixed Income A/C - Cash | 1,281,976.64 | - | 1,281,976.64 |
| Investments:CNB Fixed Income A/C - Bonds | 33,596,137.48 | - | 33,596,137.48 |
| Investments:CNB Fixed Income A/C - UGL | - | 1,172,640.01 | (1,172,640.01) |
| Investments:CNB Fixed Income A/C - Acc. Int. | 156,118.00 | - | 156,118.00 |
| Paid Loss Recoverable | - | - | - |
| Loss Reserves Recoverable | 1,179,038.12 | - | 1,179,038.12 |
| Accts Pybl & Accrued Expenses:Accrued IMAC Fees | - | - | - |
| Accts Pybl & Accrued Expenses:Accrued Office Charge back | - | - | - |
| Accts Pybl & Accrued Expenses:Accrued Misc Exp | - | - | - |
| Accts Pybl & Accrued Expenses:LOC - NT | - | - | - |
| Accts Pybl & Accrued Expenses:Legal Expenses | - | - | - |
| Accts Pybl & Accrued Expenses:Investment Review | - | 3,344.93 | (3,344.93) |
| Accts Pybl & Accrued Expenses:WC LOC Fees | - | - | - |
| Accts Pybl & Accrued Expenses:Accrued PPIC LOC fees | - | - | - |
| Accts Pybl & Accrued Expenses:Accrued Inv Mngmt Fees | - | 2,536.03 | (2,536.03) |
| Accts Pybl & Accrued Expenses:Accrued Gvmnt Fees | - | - | - |
| Accts Pybl & Accrued Expenses:Accrued Audit | - | 30,237.51 | (30,237.51) |
| Accts Pybl & Accrued Expenses:Accrued Travel & Admin | - | - | - |
| Accts Pybl & Accrued Expenses:Accrued Mngmt Fees | - | - | - |
| Accts Pybl & Accrued Expenses:Accrued Transition Cost NT to CNB | - | - | - |
| Prepaid Premium | - | 1,440,847.00 | (1,440,847.00) |
| Reinsurance Premiums Payable | - | - | - |
| Due to Parent | - | - | - |
| Unearned Premium Reserve | - | 5,551,164.18 | (5,551,164.18) |
| Deferred Gain on Novation | - | 42,792.08 | (42,792.08) |
| Loss Reserves:Outstanding Loss Reserves - Current Portion | - | 5,029,432.26 | (5,029,432.26) |
| Loss Reserves:Outstanding Loss Reserves - Long Term Portion | - | 17,310,561.97 | (17,310,561.97) |
| Loss Reserves:IBNR - Current Portion | - | 5,191,753.22 | (5,191,753.22) |
| Loss Reserves:IBNR - Long Term Portion | - | 18,269,819.17 | (18,269,819.17) |
| Loss Reserves:Discount on Loss Reserves - Current Portion | 1,369,101.38 | | 1,369,101.38 |
| Loss Reserves:Discount on Loss Reserves - Long Term Portion | 4,683,096.77 | | 4,683,096.77 |
| Dividend Paid | 4,000,000.00 | - | 4,000,000.00 |
| ITD UW Results | 7,508,171.33 | - | 7,508,171.33 |
| Retained Earnings | - | 18,386,838.20 | (18,386,838.20) |
| Share Capital | - | 120,000.00 | (120,000.00) |

**MICL**

**Trial Balance**

**As of June 30, 2018**

| | 30-Jun-18 | | |
|---|---|---|---|
| | Debit | Credit | Amount Dr(Cr). |
| Premiums Earned:Gross Written Premiums | - | 13,158,187.00 | (13,158,187.00) |
| Premiums Earned:Reinsurance Premiums Assumed | 1,206,259.00 | - | 1,206,259.00 |
| Premiums Earned:Movement in UEPR | - | 283,457.13 | (283,457.13) |
| Premiums Earned:Movement in Reins Prem Ceded | 256,837.85 | - | 256,837.85 |
| Claims Incurred:Losses Paid | 12,432,425.85 | - | 12,432,425.85 |
| Claims Incurred:Paid Loss Recovered | - | - | - |
| Claims Incurred:Movement in Reserves:Mvmnt in Loss Reserves | 1,052,576.19 | - | 1,052,576.19 |
| Claims Incurred:Movement in Reserves:Mvmnt in Loss Reserve Recover | 428,361.28 | - | 428,361.28 |
| Claims Incurred:Movement in Reserves:Mvmnt in IBNR | 211,181.38 | - | 211,181.38 |
| Claims Incurred:Movement in Reserves:Mvmnt Discount in Loss Reserves | - | 1,107,443.08 | (1,107,443.08) |
| Mvmnt on deferred gain | 3,139.33 | - | 3,139.33 |
| Investment Income:NT Calamos Equity Int. Income | - | - | - |
| Investment Income:NT Richmond TIP A/C - Interest | - | - | - |
| Investment Income:NT Calamos High A/C - Interest | - | - | - |
| Investment Income:Interest Income - BOB | - | 556.46 | (556.46) |
| Investment Income:Interest Income - Cash Deposit CNB | - | 812.43 | (812.43) |
| Investment Income:Interest Income - CNB Call Account | - | 12.00 | (12.00) |
| Investment Income:Investment Income Escrow | - | - | - |
| Investment Income: RI Trust A/C - Int. Income | - | 43,943.69 | (43,943.69) |
| Investment Income: Fixed Income A/C - Int. Inc. | - | 790,827.44 | (790,827.44) |
| Investment Income:Realized Gain/Loss on Inv | 61,301.98 | - | 61,301.98 |
| Investment Income:Unrealized gain/loss on Inv. | 717,624.04 | - | 717,624.04 |
| Investment Income:Investment and Bank Fees | 134,236.83 | - | 134,236.83 |
| Investment Income:Tax Withheld | - | - | - |
| Other Income | | | - |
| Administrative Expenses:Miscellaneous Expenses | 350.00 | - | 350.00 |
| Administrative Expenses:Investment Review | 40,247.04 | - | 40,247.04 |
| Administrative Expenses:Office Chargebacks | 3,780.00 | - | 3,780.00 |
| Administrative Expenses:Government Fees | 14,209.66 | - | 14,209.66 |
| Administrative Expenses:Legal Fees | 29,831.25 | - | 29,831.25 |
| Administrative Expenses:Management Fee | 110,000.00 | - | 110,000.00 |
| Administrative Expenses:Letter of Credit Fees | 291,081.58 | - | 291,081.58 |
| Administrative Expenses:Travel & Meeting Expense | 7,221.48 | - | 7,221.48 |
| Administrative Expenses:Audit Fees | 30,237.32 | - | 30,237.32 |
| Administrative Expenses: Costs associated with transition from NT to CNB | - | - | - |
| Administrative Expenses:Bank Charges - WC Escrow A/c | - | - | - |
| Administrative Expenses:Bank Charges - Bof Butterfield | 3,752.62 | - | 3,752.62 |
| TOTAL | 88,277,813.31 | 88,277,813.31 | 0.01 |
| | | - | |
| | 17,034,656.50 | 15,385,239.23 | |
| | | (1,649,417.27) | |
| | | (2) | Round Off |