

December 5, 2018

Hon. Commissioner Ted Nickel
Office of the Commissioner of Insurance
State of Wisconsin
GEF-III, Second Floor
125 South Webster Street
Madison, Wisconsin 53703-3474

Re: National Farmers Union Property and Casualty Insurance ("Insurer")

Dear Commissioner Nickel:

On behalf of Insurer, the undersigned submits this report, pursuant to Wis. Stat. § 617.225, of a dividend the Insurer proposes to pay to its proposed parent, Integon National Insurance Company ("Integon National"). This report is being submitted with Integon National's application for approval of the Office of the Insurance Commissioner ("OCI") to acquire control of the Insurer on Form A (the "Form A"). The following information is submitted in support of this report pursuant to Wis. Admin. Code § Ins 40.18, with the following headings and numbers matching those used in the rule:

(1) The amount of the proposed dividend.

The amount of the proposed dividend is \$25,000,000.

(2) The date established for payment of the dividend.

The dividend is to be paid as of April 1, 2019, or such earlier date upon Integon National's closing of the acquisition of the Insurer subject to receipt of the requested approval of the Form A.

(3) A statement as to whether the dividend is to be in cash or other property and, if in property, a description of the property, its cost, and its fair market value together with an explanation of the basis for the valuation.

The dividend will be paid in bonds with cash to supplement.

(4) A copy of the calculations determining that the proposed dividend is extraordinary.

The proposed dividend is extraordinary because line k exceeds line h:

a.	Surplus with regard to policyholders as of December 31, 2017	\$ <u>42,131,216</u>
b.	10% of line a	\$ <u>4,213,121</u>
c.	Net income minus realized capital gains for calendar year X	\$ <u>(2,261,215)</u>
d.	Aggregate net income minus aggregate realized capital gains for calendar years X, X-1, and X-2	\$ <u>1,694,822</u>
e.	Dividends paid or credited and distributions made within the calendar years X-1 and X-2	\$ <u>0</u>
f.	Line d minus line e	\$ <u>1,694,822</u>
g.	Greater of line c and line f	\$ <u>1,694,822</u>
h.	Extraordinary dividend threshold (lesser of line b and line g)	\$ <u>1,694,822</u>
i.	Proposed dividend	\$ <u>25,000,000</u>
j.	Dividends paid or credited and distributions made within the preceding 12 months	\$ <u>0</u>
k.	Line i plus line j	\$ <u>25,000,000</u>

(a) The amounts, dates and form of payment of all dividends or distributions, including regular dividends but excluding distributions of the insurer's own securities, paid within the period of 12 consecutive months ending on the date fixed for payment of the proposed dividend for which approval is sought and commencing on the day after the same day of the same month in the previous calendar year.

To the best of our knowledge and belief, the Insurer paid no cash dividends to its shareholder(s) during the 12 consecutive months ending on the date fixed for payment of the proposed dividend.

(b) Policyholder surplus as of the 31st day of December of the immediately preceding calendar year.

Insurer's policyholder surplus at December 31, 2017 was \$42,131,216.

(c) If the insurer is a life insurer, the net income less realized capital gains for the previous calendar year.

Not applicable.

(d) If the insurer is not a life insurer, the net income less realized capital gains for the previous calendar year and the 2 calendar years preceding that calendar year.

Insurer's net income for 2017 was \$(2,280,866) after subtracting realized capital gains for 2017 in the amount of \$(19,651). Insurer's net income for 2016 was \$1,769,920 and its realized capital gains for 2016 were \$36,101, leaving a net of \$1,733,819. The corresponding figures for calendar year 2015 were \$2,241,159, \$18,941 and \$2,222,218.

(e) If the insurer is not a life insurer, the dividends paid to stockholders excluding distributions of the insurer's own securities in the preceding 3 calendar years.

To the best of our knowledge and belief, Insurer paid no dividends in calendar years 2015, 2016 and 2017.

(5) A balance sheet and statement of income for the period intervening from the last annual statement filed with the commissioner and the end of the month preceding the month in which the request for the dividend is submitted.

Insurer's unaudited financial statement for the quarterly period ending on September 30, 2018 was previously filed with the OCI and is incorporated herein by reference. Please refer to Exhibit E-2 of the Form A for three-year financial projections for the Insurer, which reflect the Insurer's payment of the proposed dividend in 2019.

(6) A brief statement as to the effect of the proposed dividend on the insurer's policyholder surplus and the reasonableness of policyholder surplus in relation to the insurer's outstanding liabilities and the adequacy of policyholder surplus relative to the insurer's financial needs.

Subject to the closing of the acquisition of the Insurer by Integon National and the concurrent execution of the intercompany reinsurance agreement between the Insurer and Integon National, on a pro-forma basis as at December 31, 2019, Insurer's post-dividend policyholder surplus would be \$24,217,858. This figure is reasonable in relation to Insurer's outstanding liabilities, and adequate relative to Insurer's financial needs because:

- Insurer's pro-forma post-dividend excess security surplus as at December 31, 2019 would be \$21,417,858.
- Insurer's pro-forma post-dividend total adjusted capital as at December 31, 2019 (calculated for RBC purposes) would be \$24,217,858 and Insurer's pro-forma RBC authorized control level risk-based capital at December 31, 2019 would be \$1,885,486, leaving it with a pro-forma post-dividend RBC ratio of approximately 1284%, which is well into the adequate zone.

Please refer to the Plan of Operations attached as Exhibit E-1 to the Form A for additional information about National General's future plans for the Insurer including a discussion of our management strategy, reserving philosophy, and reinsurance program, as well as the products/lines the Insurer will continue to offer following the acquisition and prospective plans for expansion into new markets.

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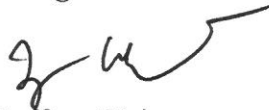
In addition, the proposed dividend would not violate the statutory standards of §§ 180.0640(3) and 611.69(1) because, after giving effect to the proposed dividend and the Insurer's concurrent entry into the intercompany reinsurance agreement with Integon National, for which approval is also requested in the Form A, (a) the Insurer would be able to pay its debts as they become due in the usual course of business, and (b) the Insurer's total assets would not be less than the sum of its total liabilities plus the amount that would be needed, if Insurer were to be dissolved at the time of the dividend, to satisfy the preferential rights upon dissolution of shareholders whose preferential rights are superior to those receiving the dividend (because there are no shareholders with such preferential rights).

We would appreciate your consideration of this report, and we request that, if possible, your Office confirm its intention not to disapprove the dividend concurrently with the requested approval of the Form A and proposed intercompany reinsurance agreement. To the extent that Insurer's annual statement for the year ended December 31, 2018 is finalized prior to the closing of the acquisition, the undersigned commits to update the numbers contained in this report to reflect current financial information.

If you have any questions about the proposed dividend, please contact me.

Regards,

Integon National Insurance Company



Jeffrey Weissmann
General Counsel and Secretary