

REINSURANCE AGREEMENT

This Reinsurance Agreement (the “Agreement”) is entered into as of [], 2019, among

National Farmers Union Property and Casualty Company
(the “Ceding Company”)

And

National General Management Corp.
(“Management”)

And

Integon National Insurance Company
(“Integon National”)

In consideration of the mutual covenants and upon the terms and conditions set forth herein, the parties hereby agree as follows:

I. DEFINITIONS

The following terms, when used in this Agreement, shall have the following meanings:

- 1.01 “Book of Business in Force” shall mean the Net Liability of the Ceding Company on all policies of insurance and all assumed reinsurance business outstanding and in force as of and subsequent to the Effective Date, except multi-peril crop business which is reinsured under a separate reinsurance agreement. It shall also include any Net Liability of the Ceding Company on or related to insurance policies or reinsurance contracts which have expired, been terminated or non-renewed prior to the Effective Date, except multi-peril crop business which is reinsured under a separate reinsurance agreement (as valued at December 31 of the year preceding the Effective Date.)
- 1.02 “Cessions” shall mean the transactions pursuant to which Ceding Company cede and transfer to Integon National 100% of their respective Book of Business in Force.
- 1.03 “Effective Date” shall mean 12:01 a.m. Standard Time on [], 201[9].
- 1.04 “Finance and Service Charge Income” shall mean income associated with a finance or service charge levied to cover the extra handling costs of deferred or installment billing.

- 1.05 “Funds Held” shall mean the sum of premium and agent balances receivable, reinsurance losses recoverable, equities and deposits in pools and associations receivable and reinsurance ceded receivable on expense less the sum of funds held receivable and payable, reinsurance payable on loss/LAE, advanced premiums, reinsurance ceded premiums payable, drafts outstanding, equities and deposits in pools and associations payable and reinsurance assumed payable on expense, with other insurers, reinsurers, pools and associations not a party to this contract.
- 1.06 “Loss Adjustment Expense” or “LAE” shall mean all direct expenses incurred in the investigation, adjustment, appraisal or defense for all claims under policies and contracts of insurance reinsured pursuant to this Agreement. Loss Adjustment Expense shall also include office expenses, operating overhead expenses, lease costs and compensation and benefits of regular employees of the claims department, but shall not include investment, Other Underwriting Expenses or non-underwriting expenses of the ceding company. Loss Adjustment Expenses shall include like expenses on reinsurance business assumed from other insurers or reinsurers and shall be reduced by like expenses ceded to other insurers or reinsurers not a party to this Agreement.
- 1.07 “Net Liability” shall mean all liability for insurance policy losses and Loss Adjustment Expense, plus reinsurance assumed from other insurers and reinsurers not a party to this Agreement less reinsurance ceded to State Mandated Reinsurance Facilities. Net Liability shall also include all Other Underwriting Expense and other underwriting related items including, but not limited to, Finance and Service Charge Income, Premiums and Agent Balances Recovered or Charged Off, Premium Deficiency Reserve Changes, Policyholder Dividends and the components of Funds Held. Net Liability shall not include investment income, investment gains or losses, federal income taxes or other income or expenses not incurred in connection with underwriting operations.
- 1.08 “Net Unearned Premium Reserves” shall mean a reserve equal to the direct unearned premiums on a Participant’s Book of Business in Force at any time during the term of this Agreement, plus unearned premiums on reinsurance assumed business, minus unearned premiums on related reinsurance ceded.
- 1.09 “Net Written Premiums” shall mean all direct written premiums, plus reinsurance assumed, minus reinsurance ceded to State Mandated Reinsurance Facilities.
- 1.10 “Net Paid Losses” shall mean all direct paid losses plus reinsurance assumed paid losses minus reinsurance ceded paid losses due and recovered.
- 1.11 “Other Underwriting Expense” shall mean all expenses incurred in the acquisition of insurance business, the issuance of insurance policies and contracts, the rendering of services under insurance policies and contracts, premium taxes, licenses and fees and other expenses generally recognized as underwriting expenses under statutory accounting principles adopted by the National Association of Insurance Commissioners. Other Underwriting Expense shall not

include loss adjustment, investment or other non-underwriting expenses of the ceding company. Other Underwriting Expense shall include like expenses on reinsurance business assumed from and shall be reduced by like expenses ceded to other insurers or reinsurers not a party to this Agreement.

- 1.12 “Participants” shall mean Integon National and the Ceding Company.
- 1.13 “Policyholder Dividends” shall mean a return of premiums to policy holders based on loss experience or Board action.
- 1.14 “Reinsurance” shall mean the reinsurance arrangement set out in this Agreement.
- 1.15 “Premiums and Agent Balances Recovered or Charged Off” shall mean uncollectible receivable balances due from policyholders or agents charged off as credit losses. This category includes credit offsets for funds recovered from policyholders or agents on balances previously written-off.
- 1.16 “Premium Deficiency Reserve” shall mean estimates for premium inadequacies within the unearned premium reserves.
- 1.17 “Premium Deficiency Reserve Changes” shall mean the increase or decrease in the actuarial estimate for premium inadequacies within the unearned premium reserve.
- 1.18 “State Mandated Reinsurance Facilities” means the North Carolina Reinsurance Facility, the Michigan Catastrophic Claims Association and any other reinsurance facility with respect to which participation is a requirement for doing business.

II. ADMINISTRATION

Management, pursuant to that certain Management Services Agreement dated [], 2019, among Management and the Participants (the “Management Agreement”), shall serve as the Administrator (as such term is defined in the Management Agreement) and its duties shall include, but shall not be limited to:

- 2.01 Preparing general ledger accounting and statistical entries necessary to record all Cession transactions and providing access to said records to Ceding Company, auditors and state examiners as reasonably required.
- 2.02 Computing reinsurance ceded and reinsurance assumed adjustments associated with this Agreement including premium, loss, Loss Adjustment Expense, Other Underwriting Expense and other underwriting related items including, but not limited to, Finance and Service Charge Income, Premiums and Agent Balances Recovered or Charged Off, Premium Deficiency Reserve Changes, Policyholder Dividends and Funds Held to facilitate each Participant’s statutory reporting requirements.

- 2.03 Computing, billing, and collecting transfer settlement balances between Integon National and the Ceding Company in accordance with the terms of this Agreement as provided under Sections 3.02 and 3.03.
- 2.04 Documenting and maintaining accounting records that support the transactions associated with this Agreement in accordance with Integon National record retention guidelines and procedures.

III. REINSURANCE

- 3.01 Cessions. The Ceding Company hereby cedes and transfer to Integon National, and Integon National hereby reinsures and assumes as its own obligation, 100% of the Ceding Company's Book of Business in Force as of and subsequent to the Effective Date.
- 3.02 Initial Settlement of Balances.
- (a) In consideration of the assumption by Integon National of the Book of Business in Force of the Ceding Company pursuant to §3.01, upon execution of this Agreement, the Ceding Company shall pay and transfer to Integon National an amount equal to the Ceding Company's net unearned premium reserves, if any, on their respective Books of Business in Force as of the Effective Date.
 - (b) In consideration of the assumption by Integon National of the Net Liability of the Ceding Company pursuant to §3.01, upon execution of this Agreement, the Ceding Company shall pay and transfer to Integon National its Loss and Loss Adjustment Expense reserves; Premium Deficiency Reserves and unpaid Policyholder Dividends less Funds Held as valued at December 31 of the year prior to the Effective Date, in each case, if any.
 - (c) An initial settlement of the net transfer balances shall occur within 60 days of the Effective Date of this Agreement. A final settlement, if necessary, will be paid within 40 days of the initial settlement. Settlements shall be in the form of U.S. currency (cash) or the fair value of mutually agreed upon assets.
- 3.03 Subsequent Settlement of Balances. In consideration of the assumption by Integon National of the Book of Business in Force of the Ceding Company pursuant to §3.01, each Ceding Company shall pay and transfer to Integon National monthly, an amount equal to Ceding Company's Net Written Premiums and Finance and Service Charge Income, less Net Paid Losses, net paid Loss Adjustment Expenses, paid Other Underwriting Expense, paid Policyholder Dividends and Premiums and Agent Balances Recovered or Charged Off adjusted for Funds Held and any and all insurance net liabilities excluding investments and federal income taxes. The obligations of the Ceding Company shall be several, not joint. The subsequent settlement of the net transfer balances shall occur monthly no later than 60 days following the end of each calendar month.

Settlements shall be in the form of U.S. currency (cash) or the fair value of mutually agreed upon assets.

IV. FUNDING OF RESERVES

In the event either Integon National or the Ceding Company are not authorized to act as a reinsurer by insurance regulatory authorities of any state in the United States of America which requires authorization for the ceding company to receive credit with respect to outstanding losses recoverable and unearned premium reserves assumed by the reinsuring company, then upon request of the ceding company, the assuming company shall fund its share of outstanding losses recoverable and unearned premium reserve hereunder by a clean, irrevocable and unconditional letter of credit in such form as may be required by the insurance regulatory authorities. The parties hereby agree that any amounts withdrawn from such letter of credit shall be used only to reimburse the ceding company for the reinsurer's share of such losses and unearned premium reserve, and to refund to the reinsurer any excess amount upon determination of the reinsuring company's ultimate liability under this Agreement.

The parties further agree that the reinsuring company may, at its option, fund its share of such outstanding losses recoverable and unearned premium reserve by cash advance or other means acceptable to the insurance regulatory authorities.

V. ORIGINAL CONDITIONS

The reinsurance provided hereunder shall be subject to the same terms, conditions and waivers, and to the same modifications, alterations and cancellations as the respective policies, contracts, and binders of insurance issued by the ceding company.

VI. REPORTING

Each Participant shall have access to the books and records of the Administrator and the other Participants at all reasonable times upon written request. The Administrator shall, within 30 days after expiration of each calendar month, render a report setting forth the following:

- 6.01 A statement of the total premiums accounted for under this Agreement during the preceding calendar month;
- 6.02 A statement of all paid losses and Loss Adjustment Expenses subject to this Agreement during the preceding calendar month;
- 6.03 A statement of the estimated total of unadjusted losses and Loss Adjustment Expenses recoverable under this Agreement as of the close of the preceding calendar month; and
- 6.04 Such other information as a Participant may reasonably request.

- 6.05 The Administrator will make available a copy of these reports within 30 days after expiration of each calendar month to each Ceding Company.

VII. TERM AND TERMINATION

- 7.01 Term. This Agreement shall have an indefinite term.
- 7.02. Termination. (a) A Participant's participation in this Agreement may be terminated as follows: (i) by mutual agreement of the Participants; (ii) as of the end of any calendar month upon written notice of withdrawal from such Participant to Management; (iii) upon the merger with, acquisition by or consolidation with another entity by such Participant; or (iv) by any Participant pursuant to Article 9.
- (b) In the event of the termination of a Participant's participation as a result of the occurrence of an event listed in subsections 7.02(a)(i) or (ii), such termination shall not be effective unless (i) Management provides notice of termination no less than 90 days prior to the effective date of termination; (ii) notice of termination by the Participant is signed for by or on behalf of the Participant upon delivery or, in the event that the Participant refuses to acknowledge delivery of notice of termination by signature, Management reasonably establishes delivery to and receipt by the Participant of said notice.
- (c) No termination of a Participant's participation shall be effective unless prior written notice of termination has been provided to the domiciliary insurance regulatory authority of the subject Participant.

VIII. INSOLVENCY

- 8.01. In the event that one or more of the Ceding Company ceases writing new and renewal business and is insolvent or is otherwise subject to liquidation or receivership proceedings (an "Impaired Company"), Integon National shall absorb or assume in full the net retained portion of the combined "Net Liability", which would otherwise be the responsibility of the Impaired Company. If the foregoing adjustment to the Net Liability is such that statutory pre-approval or non-disapproval is required by any regulatory authority, then the appropriate filings shall be made before any adjustment is implemented and the adjustment shall be subject to receipt of such regulatory approvals or non-disapprovals.
- 8.02 In the event of the insolvency of one or both Participants, reinsurance under this Agreement shall be payable by Integon National hereunder (on the basis of (i) reported claims allowed by the court overseeing the liquidation against the ceding insurer under the contract or contracts reinsured or (ii) the liability of the ceding insurer under the contract or contracts reinsured as allowed by the court overseeing the liquidation against the ceding insurer, without diminution because of the insolvency of the Participant) to Integon National or its domiciliary receiver.

It is agreed, however, that the liquidator or receiver or statutory successor of the Ceding Company shall give written notice to Management, on behalf of Integon National, of the pendency of a claim against such Ceding Company on the contract or contracts reinsured within a reasonable time after such claim is filed in the insolvency proceeding and that, during the pendency of such claim, Management, pursuant to the Management Agreement, may investigate such claim and interpose at its own expense in the proceeding where such claim is to be adjudicated, any defenses which it may deem available to the Ceding Company or its liquidator to the extent of a proportionate share of the benefit which may accrue to the Ceding Company solely as a result of the defense undertaken by Management.

IX. DEFAULT

A party shall be in default under this Agreement (each, an “Event of Default”) in the event that it fails to comply with any of its material obligations pursuant to this Agreement, which failure is not cured within 30 days after written notice from any other party specifying the failure. Notwithstanding the foregoing, a party shall not be in default if the failure by its nature cannot be cured within such 30-day period and the party thereafter expeditiously pursues it to a satisfactory cure. Upon the occurrence of any Event of Default by any of the Ceding Company which is not cured as set forth above, Integon National shall have the right to immediately terminate the reinsurance arrangements provided pursuant to this Agreement, as to the party in default. Upon the occurrence of any Event of Default by Integon National which is not cured as set forth above, the Ceding Company shall have the right to immediately terminate the reinsurance arrangements provided pursuant to this Agreement.

X. OFFSET

The obligations of each party under this Agreement to make payments or transfer assets to any other party may be offset, in whole or in part, against the obligations of such other party to make payments or transfer assets to it pursuant to this Agreement.

XI. ARBITRATION

Any dispute or difference arising with reference to the applicable interpretation or effect of this Agreement, or any part thereof, shall be referred to a Board of Arbitration (the “BOA”) of two (2) arbitrators and an umpire.

The members of the BOA shall be U.S. citizens and shall be active or retired disinterested officers of insurance or reinsurance companies or shall be active attorneys, accountants or consultants with ten (10) or more years’ experience representing clients in the insurance industry.

One arbitrator shall be chosen by the party initiating the arbitration and designated in the letter requesting arbitration. The other party shall respond, within fifteen (15) days, advising of its arbitrator. The umpire shall thereafter be chosen by the two (2) arbitrators.

In the event either party fails to designate its arbitrator within fifteen (15) days of the date of the letter initiating arbitration as indicated above, the other party is hereby authorized and empowered to name the second arbitrator within seven (7) days of the expiration of such fifteen (15) day period, and the party which failed to designate its arbitrator shall be deemed to have waived its right to designate an arbitrator and shall not be aggrieved thereby. Upon selection, as provided above, the two (2) arbitrators shall then have thirty (30) days within which to choose an umpire. If they are unable to do so, the umpire shall be appointed as provided in the Commercial Arbitration Rules of the American Arbitration Association.

Each party shall submit its case to the BOA within one (1) month from the date of the appointment of the umpire, but this period of time may be extended by unanimous written consent of the BOA.

The sittings of the BOA shall take place in the domiciliary state of the applicable Participant (or, if more than one Participant is involved, the domiciliary state of the Participant that is the primary claimant), unless otherwise agreed in writing by the parties. The BOA shall make its decision with regard to the custom and usage of the insurance and reinsurance business. The BOA is released from all judicial formalities and may abstain from the strict rules of law. The written decision of a majority of the BOA shall be rendered within sixty (60) days following the termination of the BOA's hearings, unless the parties consent to an extension. Such majority decision of the BOA shall be final and binding upon the parties both as to law and fact, and may not be appealed to any court of any jurisdiction. Judgment may be entered upon the final decision of the BOA in any court of proper jurisdiction.

Each party shall bear the fees and expenses of the arbitrator selected by or on its behalf, and the expenses of the umpire shall be shared evenly by the parties.

XII. MISCELLANEOUS

- 12.01. Entire Agreement. This Agreement constitutes the entire agreement among the parties and supersedes all prior or contemporaneous discussions, negotiations, representations or agreements relating to the subject matter of this Agreement.
- 12.02. Relationship of the Parties. The parties are independent contractors and nothing provided in this Agreement shall create, nor be deemed to create, a partnership, joint venture or other relationship between the parties.
- 12.03. Assignment. Neither this Agreement nor any rights or obligations hereunder may be assigned or otherwise transferred, in whole or in part, by any party without the prior written consent of the other parties and the prior approval of the insurance regulatory authorities of the respective domiciliary state of each Participant.
- 12.04. Binding Effect. This Agreement shall be binding upon, inure to the benefit of and be enforceable by and against Integon National and the Ceding Company and to their respective successors and permitted assigns.

12.05. Governing Law. As this Agreement relates to each Participant, this Agreement is hereby deemed to have been made under and governed by the laws of the respective domiciliary state of such Participant. Should litigation be filed relative to a dispute related to or arising from this Agreement, the parties agree that the forum for any such litigation shall be the court for the domiciliary state of the applicable Participant (or, if more than one Participant is involved, the domiciliary state of the Participant that is the primary claimant) as the court of proper jurisdiction and venue for any actions or proceedings relating to this Agreement, hereby irrevocably consent to such designation, jurisdiction or venue with respect to any action or proceeding initiated in such court and hereby waive all defenses and objections to jurisdiction and venue. The provisions of this Section 12.05 are not intended to supersede or interfere with the rights of the parties to arbitrate pursuant to Article XI of this Agreement.

12.06. Notices. All notices and other communications under this Agreement will be in writing and will be delivered personally or sent by confirmed facsimile transmission or nationally recognized overnight delivery service. Any such notice or other communication will be deemed given upon actual delivery in each case to the following addresses:

If to a Ceding Company:

59 Maiden Lane, 38th Floor
New York, NY 10038
Attention: General Counsel
Facsimile: 212.380.9499

If to Management:

59 Maiden Lane, 38th Floor
New York, NY 10038
Attention: General Counsel
Facsimile: 212.380.9499

12.07. No Third Party Benefit. This Agreement is intended for the exclusive benefit of the parties to this Agreement and their respective heirs, successors and assigns, and nothing contained in this Agreement shall be construed as creating any rights or benefits in or to any third party.

12.08. Severability. Any term or provision of this Agreement which is invalid or unenforceable in any jurisdiction will, as to that jurisdiction, be ineffective to the extent of any such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Agreement.

12.09. Non-Waiver. No failure by any party to insist upon strict compliance with any term of this Agreement, to exercise any option, enforce any right, or seek any remedy upon any default of any other party shall affect, or constitute a waiver of, the first party's right to insist upon such strict compliance, exercise that option,

enforce that right, or seek that remedy with respect to that default of any prior, contemporaneous, or subsequent default, nor shall any custom or practice of the parties at variance with any provision of this Agreement affect, or constitute a waiver of, any party's right to demand strict compliance with all provisions of this Agreement.

- 12.10. Waivers and Amendments. The Agreement may only be amended or modified, and the terms hereof may only be waived, by a writing, signed by each party or, in the case of a waiver, by the party entitled to the benefit of the terms being waived, subject to the prior approval of the insurance regulatory authorities of the respective domiciliary state of each Participant, to the extent such approval is required by law.
- 12.11. Construction; Interpretation. All pronouns and any variations thereof refer to the masculine, feminine, or neuter singular, or plural, as the context may require.
- 12.12. Counterparts. This Agreement may be executed in two or more counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.
- 12.13. Captions. The captions of the various sections of this Agreement are not part of the context of this Agreement, but are only labels to assist in locating those sections and shall be ignored in construing this Agreement.

[Signatures on the following page]

In Witness Whereof, this Agreement has been duly executed and delivered by the duly authorized officers of the parties hereto as of the date first above written.

INTEGON NATIONAL INSURANCE COMPANY

By:

Name:

**NATIONAL FARMERS UNION PROPERTY AND
CASUALTY COMPANY**

By:

Name:

[Signature page to Reinsurance Agreement]