

Integon Insurance Group

Winston-Salem, North Carolina

Multi-Entity Report on Examination

As of December 31, 2017

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May 22, 2019

Honorable Mike Causey
Commissioner of Insurance
State of North Carolina
Raleigh, North Carolina

Sir:

Pursuant to your instructions and in accordance with Section (“§”) 58-2-131 of the General Statutes of North Carolina (“GS”), the North Carolina Department of Insurance (“Department”) conducted an examination of the records, business affairs and financial condition of

**Integon National Insurance Company (“Integon National”)
Integon Casualty Insurance Company (“Integon Casualty”)
Integon General Insurance Corporation (“Integon General”)
Integon Indemnity Corporation (“Integon Indemnity”)
Integon Preferred Insurance Company (“Integon Preferred”)
New South Insurance Company (“New South”)**

(hereinafter collectively referred to as the “Integon Insurance Group”), at its main administrative and statutory home office located at 5630 University Parkway, Winston-Salem, North Carolina 27105.

SCOPE OF THE EXAMINATION

We performed a full-scope statutory examination of each insurance company within the Integon Insurance Group. This examination covers the period from January 1, 2015, to December 31, 2017, including any material transactions and events occurring subsequent to the examination date and noted during the course of this examination. The Department’s most recent prior examination of the Integon Insurance Group was as of December 31, 2014.

The purpose of this examination is to review and evaluate the Integon Insurance Group’s business processes and controls to assist in assessing and monitoring its current financial condition and prospective solvency. Pursuant to Section (“§”) 58-2-132 of the General Statutes of North Carolina (“GS”), this Report on Examination comprises only facts appearing in the books, records, or other documents of the Integon Insurance Group (together with citations of pertinent laws, regulations, and rules) with regard to any material adverse findings disclosed by the examination.

This was a multi-state coordinated financial examination of twenty-two (22) insurance company subsidiaries of National General Holdings Corporation (collectively referred to as the “NGHC Group”). North Carolina served as the Lead and Facilitating State, and Participating States included Arkansas, California, Illinois, Louisiana, Michigan, Missouri, New Jersey, New York, South Carolina, Tennessee and Texas.

We conducted our examination in accordance with standards established by the Department and the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Integon Insurance Group, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Integon Insurance Group were considered in accordance with the Handbook’s risk-focused surveillance process and the following key functional activities were identified:

Investing
Capital Adequacy and Liquidity
Premiums and Underwriting
Pricing
Reserve Adequacy
Reserve Data and Claims Handling
Related Party
Reinsurance Assumed
Reinsurance Ceded

This may include assessing significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with GS Chapter 58, and evaluating management’s compliance with Statutory Accounting Principles. This examination does not attest to the fair presentation of the financial statements included herein.

This examination report includes significant findings of fact and general information about the insurers and their financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but are separately communicated to the Integon Insurance Group’s management.

The Integon Insurance Group’s Annual Statements, work papers, and the independent audit work papers were reviewed and relied upon whenever possible. Trial balance reconciliations of the Annual Statements were performed, as were verification of ownership and valuation of assets, determination of liabilities and reserves, and an analysis and review of such accounts and records as deemed necessary by the examination team. A management representation letter attesting to the Integon Insurance Group’s ownership of assets, the nonexistence of unrecorded liabilities and contingent liabilities was received from the Integon Insurance Group’s management.

The books and records of the Integon Insurance Group are audited annually by independent certified public accountants in accordance with GS § 58-10-185(a). BDO USA, LLP of New York, New York, the designated independent public accountant of the Integon Insurance Group, issued an unqualified opinion for each year subsequent to the Department’s prior examination through, and including, the year ended December 31, 2016, for companies within the Integon Insurance Group’s management. A change in auditors notification was filed with the Department on June 26, 2017, appointing Ernst & Young, LLP as the independent auditor for the year ended December 31, 2017. Ernst & Young, LLP of New York, New York, the designated independent public accountant of the Integon Insurance Group, issued an unqualified opinion for the year ended December 31, 2017, for companies within the Integon Insurance Group’s management.

The statutory reserves and related items for 2015 and 2016 were reviewed and certified by the Integon Insurance Group's Appointed Actuary, Ronald T. Kuehn, FCAS, MAAA, CERA, CPCU, ARM, FCA of Huggins Actuarial Services, Inc. The statutory reserves and related items for 2017 were reviewed and certified by the Integon Insurance Group's Appointed Actuary, Gareth L. Kennedy, ACAS, MAAA, of Ernst & Young, LLP.

REPORT ABBREVIATIONS

Agent Alliance Insurance Company	"AAIC"
Agent Alliance Reinsurance Company, Ltd.	"AARC"
American Capital Acquisition Corporation	"ACAC"
AI Insurance Management Limited	"AIM"
AmTrust Financial Services, Inc.	"AmTrust"
AmTrust North America, Inc.	"ATNA"
Annual Statement	"AS"
Assigned Risk Solutions Ltd.	"ARS"
Board of Directors	"Board"
Century National Insurance Company	"CNIC"
Direct General Life Insurance Company	"DGLIC"
Direct General Insurance Company of Indiana	"DGICIN"
Direct General Insurance Company of Louisiana	"DGICLA"
Direct General Insurance Company of Mississippi	"DGICMS"
Direct Insurance Company	"DIC"
Direct National Insurance Company	"DNIC"
Financial Condition Examiners Handbook	"Handbook"
General Motors Acceptance Corporation, Inc.	"GMAC"
General Statutes of North Carolina	"GS"
Imperial Fire and Casualty Insurance Company	"IFCIC"
Information Technology General Controls	"ITGCs"
Information Technology Planning Questionnaire	"ITPQ"
Integon Casualty Insurance Company	"Integon Casualty"
Integon General Insurance Corporation	"Integon General"
Integon Indemnity Corporation	"Integon Indemnity"
Integon National Insurance Company	"Integon National"
Integon Preferred Insurance Company	"Integon Preferred"
National Association of Insurance Commissioners	"NAIC"
National Automotive Insurance Company	"National Auto"
National General Holdings Corporation	"NGHC"
National General Management Corporation	"NGMC"
National General Premier Insurance Company f/k/a Personal Express Insurance Company	"NGPIC" or "PEIC"
National General Re, Ltd.	"Nat Gen Re"
National Health Insurance Company	"NHIC"
New Policy Administration System	"NPS"
New South Insurance Company	"New South"
North Carolina Department of Insurance	"Department"
North Carolina Reinsurance Facility	"NCRF"
Michigan Catastrophic Claims Association	"MCCA"
Risk Services, LLC	"RSL"

SUMMARY OF SIGNIFICANT FINDINGS

1. Comments, Recommendations and Directives

Integon National Insurance Company did not file amendments to certain related party agreements with the Department in a timely manner in compliance with GS §58-19-30(b)(3) and (4). The Company is directed to notify the Department of amendments to related party agreements at least 30 days prior to the effective date pursuant to GS §58-19-30(b)(3) and (4).

ORGANIZATIONAL STRUCTURE

The companies within the Integon Insurance Group are part of an insurance holding company system as defined in GS § 58-19 and are wholly owned subsidiaries of National General Management Corporation (“NGMC”), which is a wholly owned subsidiary of National General Holdings Corporation (“NGHC”), a Delaware corporation and a specialty personal lines insurance holding company. Formerly known as American Capital Acquisition Corporation (“ACAC”), the corporation was formed in 2009 to acquire the private passenger auto insurance business of the US consumer property and casualty insurance segment of General Motors Acceptance Corporation (“GMAC”), which had been in operation since 1939. GMAC insurance companies were acquired by ACAC on March 1, 2010. The holding corporation’s name was changed to NGHC effective July 1, 2013. Shares of NGHC’s common stock began trading on the NASDAQ Global Market on February 20, 2014.

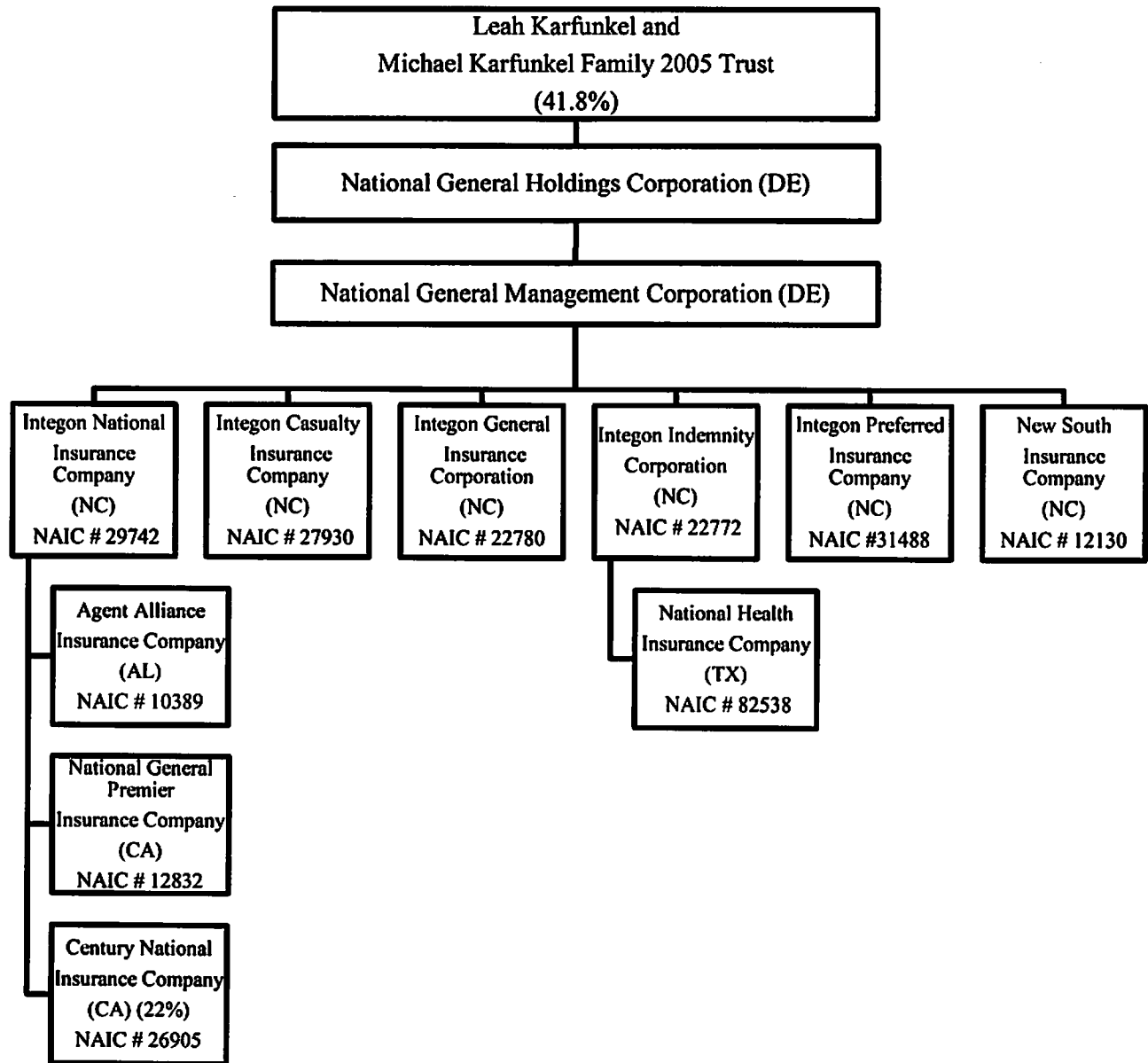
During the prior examination as of December 31, 2014, Mr. Michael Karfunkel and his wife Mrs. Leah Karfunkel, as sole trustee of the Michael Karfunkel 2005 Grantor Retained Annuity Trust, were the ultimate controlling persons of NGHC with 48.8% of collective stock ownership, and AmTrust Financial Services, Inc. (“AmTrust”) owned 13.2% of NGHC stock. Mr. Michael Karfunkel had an ownership interest in AmTrust, Maiden Holding, Ltd. and ACP Re. In April 2016, Mr. Michael Karfunkel passed away and Leah Karfunkel became the sole controlling trustee of Michael Karfunkel Family 2005 Trust, which succeeded to the assets of the Michael Karfunkel 2005 Grantor Retained Annuity Trust at the end of its term in August 2015. As of June 2017, AmTrust sold nearly all of its shares of NGHC to private investors and now owns less than 1.7% of NGHC common stock as of December 31, 2017. Accordingly, AmTrust is no longer an ultimate controlling parent of NGHC. As of December 31, 2017, Mrs. Leah Karfunkel beneficially owns or controls 41.8% of NGHC outstanding shares of common stock with significant influence over the strategic direction of the corporation; and therefore is considered the ultimate controlling person of NGHC. Subsequently, effective August 16, 2018, the NGHC Group was assigned separate NAIC Group Code No. 4928 with North Carolina as the Lead State.

There were several mergers and acquisitions that occurred during the period under examination. On January 6, 2016, the former entity National Automotive Insurance Company (“National Auto”) merged into Imperial Fire and Casualty Insurance Company (“IFCIC”), with IFCIC as the surviving entity. On June 1, 2016, NGHC acquired Century National Insurance Company (“CNIC”). On October 7, 2016, NGHC acquired Standard Property & Casualty Insurance Company (“SPCIC”). On November 1, 2016, NGHC acquired the Direct General Group, including Direct National Insurance Company (“DNIC”), Direct General Life Insurance Company (“DGLIC”), Direct General Insurance Company of Indiana (“DGICIN”), Direct General Insurance Company of Louisiana (“DGICLA”), Direct General Insurance Company of Mississippi (“DGICMS”), and Direct Insurance Company (“DIC”). In conjunction with each of the aforementioned acquisitions, certain agencies and non-insurance companies were also acquired by NGHC and its subsidiaries.

NGHC’s corporate headquarters is located at 59 Maiden Lane, 38th Floor, New York, New York, 10038. The Integon Insurance Group’s statutory home office, principal place of business and primary location of its books and records are located at 5630 University Parkway, Winston-Salem, North Carolina, 27105.

ORGANIZATIONAL CHART

The 2017 Annual Statement, Schedule Y contains a complete organizational chart. The following is a summarized organizational chart of the Integon Insurance Group within the NGHC holding company group as of December 31, 2017:



INDIVIDUAL COMPANY HISTORY

Integon National Insurance Company

Integon National was originally incorporated in 1919 under the laws of New York as Bankers and Shippers Insurance Company of New York. The Company redomesticated to the State of Connecticut on December 16, 1987. The Company redomesticated to the State of North Carolina on November 15, 1995. The Company's name was changed to Integon National Insurance Company in April 1996.

Integon National acquired National General Premier Insurance Company (“NGPIC”), formerly known as Personal Express Insurance Company (“PEIC”), on April 1, 2014. Integon National acquired Agent Alliance Insurance Company (“AAIC”) on July 1, 2014. Integon National acquired 22% of CNIC stock on June 1, 2016.

Integon Casualty Insurance Company

Integon Casualty was originally incorporated on January 23, 1992, under the laws of North Carolina as Bankers & Shippers Indemnity Company. The Company's name was changed to Integon Casualty Insurance Company in 1996.

Integon General Insurance Corporation

Integon General was originally incorporated on December 30, 1960, under the laws of North Carolina as Security General Insurance Company. The Company's name was changed to Integon General Insurance Corporation in 1969.

Integon Indemnity Corporation

Integon Indemnity was originally incorporated in 1944 under the laws of South Carolina as Blue Ridge Insurance Company. The Company redomesticated to the State of North Carolina on December 16, 1946. The Company's name was changed to Security Fire & Indemnity Company in 1959. The Company's name was changed to Integon Indemnity Corporation in 1969.

Integon Indemnity acquired National Health Insurance Company (“NHIC”) on November 1, 2012.

Integon Preferred Insurance Company

Integon Preferred was originally incorporated in 1961 under the laws of Maryland as Covenant Insurance Company. The Company redomesticated to the State of Connecticut on May 22, 1974. The Company redomesticated to the State of North Carolina in 1997. The Company's name was changed to Integon Preferred Insurance Company in 1994.

New South Insurance Company

New South was originally incorporated on December 15, 1952, under the laws of North Carolina.

CAPITAL STOCK

As of December 31, 2017, capitalization of the individual companies consisted of the following:

Integon National Insurance Company

Description	Value
Number of authorized common capital shares	100,000
Number of shares issued and outstanding	35,000
Total common capital stock	\$3,500,000
Par value per share	\$100

No additional shares of Integon National were issued during the period under examination. As of December 31, 2017, all outstanding shares of Integon National were owned by NGMC, which is wholly owned by NGHC. At December 31, 2017, Integon National reported \$103,723 in special surplus funds for ACA health insurer fee, \$868,268,432 in gross paid-in and contributed surplus, and \$98,512,722 in unassigned funds.

Integon Casualty Insurance Company

Description	Value
Number of authorized common capital shares	100,000
Number of shares issued and outstanding	30,000
Total common capital stock	\$3,000,000
Par value per share	\$100

No additional shares of Integon Casualty were issued during the period under examination. As of December 31, 2017, all outstanding shares of Integon Casualty were owned by NGMC, which is wholly owned by NGHC. At December 31, 2017, Integon Casualty reported \$3,752,998 in gross paid-in and contributed surplus, and (\$347,082) in unassigned funds.

Integon General Insurance Corporation

Description	Value
Number of authorized common capital shares	300,000
Number of shares issued and outstanding	300,000
Total common capital stock	\$3,000,000
Par value per share	\$10

No additional shares of Integon General were issued during the period under examination. As of December 31, 2017, all outstanding shares of Integon General were owned by NGMC, which is wholly owned by NGHC. At December 31, 2017, Integon General reported (\$6,027,387) in gross paid-in and contributed surplus, and \$9,711,142 in unassigned funds.

Integon Indemnity Corporation

Description	Value
Number of authorized common capital shares	300,000
Number of shares issued and outstanding	300,000
Total common capital stock	\$3,000,000
Par value per share	\$10

No additional shares of Integon Indemnity were issued during the period under examination. As of December 31, 2017, all outstanding shares of Integon Indemnity were owned by NGMC, which is wholly owned by NGHC. At December 31, 2017, Integon Indemnity reported \$8,745,974 in gross paid-in and contributed surplus, and \$8,561,073 in unassigned funds.

Integon Preferred Insurance Company

Description	Value
Number of authorized common capital shares	1,575
Number of shares issued and outstanding	1,575
Total common capital stock	\$3,150,000
Par value per share	\$2,000

No additional shares of Integon Preferred were issued during the period under examination. As of December 31, 2017, all outstanding shares of Integon Preferred were owned by NGMC, which is wholly owned by NGHC. At December 31, 2017, Integon Preferred reported \$5,490,017 in gross paid-in and contributed surplus, and (\$2,163,475) in unassigned funds.

New South Insurance Company

Description	Value
Number of authorized common capital shares	30,000
Number of shares issued and outstanding	30,000
Total common capital stock	\$3,000,000
Par value per share	\$100

No additional shares of New South were issued during the period under examination. As of December 31, 2017, all outstanding shares of New South were owned by NGMC, which is wholly owned by NGHC. At December 31, 2017, New South reported \$0 in gross paid-in and contributed surplus, and \$5,379,261 in unassigned funds.

DIVIDENDS TO STOCKHOLDER

Dividends on common stock are paid as declared by the Board of Directors (“Board”) of the Integon Insurance Group. Under the insurance regulations of North Carolina, the maximum amount of ordinary dividends which the Integon Insurance Group may pay to shareholders, is limited to the greater of 10% of the most recent year-end policyholders' surplus or net income (excluding realized capital gains) earned for that same year-end. Integon National, Integon Casualty, Integon General, Integon Indemnity, Integon Preferred, and New South paid no dividends during 2017 or 2016. In 2015, Integon Casualty paid an extraordinary dividend of \$8,000,000, Integon General paid an extraordinary dividend of \$6,000,000, and Integon Preferred paid an extraordinary dividend of \$3,000,000 to NGMC with the prior approval of the Department.

MANAGEMENT AND CONTROL

CORPORATE GOVERNANCE

The companies within the Integon Insurance Group have the same directors and principal officers. The companies occupy the same home office space and share accounting systems and personnel. All personnel are employees of NGMC.

Shareholders

The bylaws for each insurance company within the Integon Insurance Group provide that an annual meeting of the shareholders be held at such time and place as the Board may appoint. Special meetings of the shareholders may be called at any time by the chairman of the Board, the president or by any two members of the Board.

Board of Directors

The business of the Integon Insurance Group is conducted by its management team and is subject to review by the Board. The bylaws for the companies in the Integon Insurance Group specify that the number of directors shall not be less than two. Directors are elected annually, at the annual meeting of shareholders or by the written consent of the shareholders, and each director elected shall hold office until a successor is elected and qualified.

The following individuals served as directors at December 31, 2017:

Name	Location	Principal Occupation
Barry Samuel Karfunkel	Lawrence, NY	President of the Integon Insurance Group; Chief Executive Officer & Co-Chairman of the Board of National General Holdings Corporation
Michael Hal Weiner	New York, NY	Chief Financial Officer of the Integon Insurance Group and National General Holdings Corporation
Jeffrey Allan Weissmann	Clifton, NJ	Secretary of Integon Insurance Group; Senior Vice President and General Counsel of National General Holdings Corporation

The Board of the Integon Insurance Group has the authority to establish committees and has appointed the following committees of the NGHC holding company to act on behalf of the companies in the Integon Insurance Group: NGHC Audit Committee, NGHC Investment Committee, NGHC Compensation Committee, and NGHC Nominating and Governance Committee.

The following individuals served on Board committees at December 31, 2017:

Audit Committee

John Marshaleck, Chair
Patrick Fallon
Barbara Paris, M.D.

Compensation Committee

Barry Zyskind, Chair
Donald DeCarlo
Patrick Fallon

Investment Committee

Barry Karfunkel, Chair
Peter Rendall
Michael Weiner

Nominating and Governance Committee

Barry Karfunkel, Chair
Donald DeCarlo
Barry Zyskind

Officers

The bylaws provide that the Board will elect the officers, which shall consist of a president, secretary, treasurer and any other officers deemed necessary. All officers shall hold office, subject to removal at any time by the Board, until their successors are elected and qualified. Any two offices may be held by the same person, except the offices of president and secretary.

The following individuals served as officers at December 31, 2017:

Name	Title
Barry Samuel Karfunkel	President
Jeffrey Allan Weissmann	Secretary
Peter Andrew Rendall	Treasurer
Michael Hal Weiner	Chief Financial Officer
Donald Jerome Bolar	Vice President, Chief Accounting Officer
Berta Alvarez Castellano	Vice President
George Harvey Hall Jr.	Vice President, Chief Claims Officer
Brad Michael Schock	Vice President, Tax

CODE OF CONDUCT AND CONFLICT OF INTEREST

The Integon Insurance Group has established policies and procedures to identify existing or potential conflicts of interest and to report the same to the Board. Annually, the Integon Insurance Group requires a signed statement from each director and officer disclosing any conflict of interest. A review of the signed conflict of interest statements for the examination period revealed that the Integon Insurance Group acted in accordance with its policy and procedures for disclosure of conflicts of interest.

CORPORATE RECORDS

We reviewed the minutes of the meetings of the Board and its committees for the period under

examination. Based on our review, it appears that the minutes documented the Integon Insurance Group's significant transactions and events, and that the directors approved these transactions and events.

There have been no changes to the articles of incorporation and bylaws for the companies in the Integon Insurance Group during the period under examination.

STATUTORY DEPOSITS

Statutory deposits are maintained as required by insurance regulatory agencies for doing business in such jurisdictions. The 2017 Annual Statement, Schedule E, Part 3 contains a complete description and listing of the statutory deposits by state.

ACCOUNTS AND RECORDS

The Integon Insurance Group's books and records are maintained at its main administrative office located at 5630 University Parkway, Winston-Salem, North Carolina, 27105.

The Integon Insurance Group utilizes information systems to sell products to customers, to establish service and maintain customer policies, as well as to gather and report financial data. The environment for internal controls over financial reporting is highly automated and includes application controls and system generated reports supporting its financial reporting functions. Significant applications are hosted on multiple servers at the primary data center located in Winston-Salem, North Carolina. The majority of the Integon Insurance Group's financially significant applications were developed and hosted in-house, or developed and hosted by related parties pursuant to related party service agreements.

INFORMATION TECHNOLOGY CONTROLS

The Department performed a risk-based assessment and review of the Integon Insurance Group's Information Technology General Controls ("ITGCs") in accordance with the NAIC requirements as outlined in the Handbook. The guidance and direction used to perform the review of the Integon Insurance Group's ITGCs were derived from Exhibit C, Part 1 - Information Technology Planning Questionnaire ("ITPQ") and Exhibit C, Part 2 - Information Technology Work Program (collectively, "Exhibit C").

The Integon Insurance Group's responses to the ITPQ were evaluated, and certain controls within the IT control environment were tested to assess whether the selected controls were designed effectively and were functioning properly.

The Department's objectives were to obtain reasonable assurance about whether:

1. the Integon Insurance Group had a process in place to effectively identify, mitigate and manage its IT risks;
2. the Integon Insurance Group's control structure, policies and procedures were suitably designed to achieve the control objectives specified in Exhibit C; and
3. the Integon Insurance Group was complying with those policies and procedures.

The objectives above were achieved through a combination of reviewing the Integon Insurance Group's policy and procedures, testing in key areas related to Exhibit C, interviewing the Integon Insurance

Group's IT management, reviewing IT risk assessment processes, and leveraging relevant risk assessment procedures performed by Ernst & Young, LLP and the Integon Insurance Group's Internal Audit Department.

Based upon the risk-based assessment and review, the Integon Insurance Group's ITGCs were determined to be effective.

FIDELITY BONDS AND OTHER INSURANCE

The insurance companies in the Integon Insurance Group are named insureds under a fidelity bond which provides NGHC and its subsidiaries with coverage totaling \$20,000,000 in aggregate. The coverage exceeded the minimum amount of fidelity bond coverage recommended by the Handbook for the Integon Insurance Group on a consolidated basis.

In addition, the insurance companies in the Integon Insurance Group are named insureds on various corporate property and liability policies issued to NGHC, which appeared to be adequate to cover risks in the normal course of business.

EMPLOYEE BENEFITS AND PENSION PLANS

The insurance companies in the Integon Insurance Group have no employees, and operations are conducted by NGMC pursuant to a related party management services agreement. Employee benefit plans are administered through NGMC.

RELATED PARTY AGREEMENTS

Pursuant to various agreements, services such as financial management, operational management, accounting, payroll, internal audit, human resources management, tax, legal, investment advisory, and data processing are provided for or by the Integon Insurance Group and its affiliates as follows:

- a. The Integon Insurance Group has a Management Services Agreement with NGMC, effective January 1, 2012, whereby NGMC provides underwriting, claims, actuarial, policyholder services, accounting, information technology, and certain other administrative functions for a management fee of 2% of the aggregate gross written premium of the North Carolina domiciled insurers. In addition, the Integon Insurance Group companies reimburse NGMC quarterly for direct and common expenses paid on its behalf and allocated in accordance with the agreement. This Agreement was amended on November 1, 2012, June 26, 2014, June 1, 2016, June 25, 2016, and October 7, 2016 to add acquired insurance companies. Effective June 26, 2016, the management fee with NGMC was terminated as part Amendment No. 4 to the Agreement. Under this agreement, the Integon Insurance Group paid no management fees for the year ended December 31, 2017. Under this agreement, the allocated expenses were \$348,897,963 for Integon National, \$7,784,997 for Integon Casualty, \$26,057,018 for Integon General, \$48,695,202 for Integon Indemnity, \$40,215,565 for Integon Preferred, and \$17,204,361 for New South for the year ended December 31, 2017.
- b. NGHC and NGMC on behalf of itself and its insurance company subsidiaries, including the Integon Insurance Group, had an Asset Management Agreement with AII Insurance Management Limited

("AIM"), effective March 1, 2010, whereby AIM provided investment management services for a quarterly fee of 0.05% of the average value of assets under management. Subsequently, effective May 1, 2018, this agreement was terminated. Under this agreement, investment fees were paid totaling \$2,413,441 for Integon National, \$9,333 for Integon Casualty, \$17,322 for Integon General, \$24,436 for Integon Indemnity, \$10,992 for Integon Preferred, and \$12,463 for New South for the year ended December 31, 2017.

- c. The Integon Insurance Group is included in a consolidated income tax return in accordance with a Tax Allocation Agreement between NGHC and its subsidiaries, effective March 1, 2010. The agreement sets forth the parties' obligations in connection with their filing as a consolidated tax filing group. Each entity shall remit to NGHC any amount determined to be due in accordance with the agreement no more than 30 days after the taxes are due. Refunds received by NGHC resulting from tax savings shall be remitted to the applicable entity on or before the 30th of each month following the calendar quarter in which that part of the tax refund was received. Refunds received by NGHC resulting from adjustments to previously filed tax returns shall be remitted to the applicable entity no more than 30 days after such payments are received. This Agreement was amended on April 1, 2014, June 26, 2014, June 1, 2016, and October 7, 2016 to add acquired insurance companies. Under this agreement, the share of the federal tax payment was \$12,946,826 for Integon National, \$5,662 for Integon Casualty, \$4,958 for Integon General, \$144,526 for Integon Indemnity, \$2,026 for Integon Preferred, and \$12,240 for New South for the year ended December 31, 2017.
- d. NGHC has a Master Services Agreement with AmTrust North America, Inc. ("ATNA"), effective February 22, 2012, whereby ATNA provides postage and billing services to NGHC for premiums written on NGHC's New Policy Administration System ("NPS"). In addition, ATNA provides NGHC information technology development services in connection with the development of the policy administration system at cost. As a consideration for a license for NGHC to use that system, ATNA receives a license fee in the amount of 1.25% of gross premium of NGHC and its affiliates written on the system plus the costs for support services. In 2014, ATNA began providing NGHC services in managing the premium receipts from its lockbox facilities at a fixed cost per item processed. On September 13, 2017, ATNA and NGHC entered into a purchase agreement for the NPS system. It is anticipated that this agreement will be terminated after the transfer of the NPS system to NGHC is completed.
- e. Integon National has a consulting and marketing agreement with Risk Services, LLC, ("RSL"), a subsidiary of AmTrust, effective July 1, 2012, whereby RSL provides marketing and administration of a commercial property and casualty insurance program for agents of Integon National in connection with the reinsurance agreement with Agent Alliance Reinsurance Company for 1.5% of all net written premiums related to the insurance program. Integon National pays RSL quarterly for services performed.
- f. Integon National has a Managing General Agent and Third Party Claims Administrator Agreement with Assigned Risk Solutions Ltd. ("ARS") an affiliated insurance underwriting and program manager, effective January 1, 2016, whereby ARS provides agency services, policy administration services, and claims administration services for all policies and claims on Integon National's behalf for the specified voluntary take-out business for the voluntary auto assigned risk plans in specified jurisdictions. In consideration of services provided, ARS receives a MGA fee of 21% of premiums collected and Claims TPA fee of 9% of premiums collected on a monthly basis.

TERRITORY AND PLAN OF OPERATION

Integon National Insurance Company

At December 31, 2017, Integon National was licensed in all fifty (50) States and the District of Columbia.

Integon National writes property & casualty, and accident & health lines of business. Integon National operates its property & casualty business through independent agents and affinity partners to write non-standard and preferred private passenger auto liability and auto physical damage, commercial auto liability, inland marine, recreational vehicle, motorcycle insurance, homeowners multiple peril, fire, earthquake, and commercial multiple peril. Integon National operates its group and individual accident & health business through a network of independent agents, direct-to-consumer marketing, and affinity partners to write accidental death and disability coverage, hospital indemnity, short-term recovery care, short-term medical, cancer and critical illness, stop loss, dental and vision plans.

Integon Casualty Insurance Company

At December 31, 2017, Integon Casualty was licensed in nine (9) jurisdictions:

Connecticut	Florida	Illinois	New York	North Carolina
Ohio	Tennessee	Virginia	Washington	

Integon Casualty writes property & casualty lines of business. Integon Casualty operates through independent agents and affinity partners to write non-standard and preferred private passenger auto liability and auto physical damage.

Integon General Insurance Corporation

At December 31, 2017, Integon General was licensed in twenty-three (23) jurisdictions:

Alabama	Alaska	Arkansas	Colorado	Florida
Georgia	Illinois	Kentucky	Maryland	Missouri
Nebraska	North Carolina	North Dakota	Ohio	Oregon
Pennsylvania	Rhode Island	South Carolina	South Dakota	Tennessee
Virginia	Washington	Wisconsin		

Integon General writes property & casualty lines of business. Integon General operates through independent agents and affinity partners to write non-standard and preferred private passenger auto liability, auto physical damage, and commercial auto liability.

Integon Indemnity Corporation

At December 31, 2017, Integon Indemnity was licensed in thirty-seven (37) jurisdictions:

Alabama	Alaska	Arizona	Arkansas	Colorado
Delaware	Florida	Georgia	Idaho	Illinois
Indiana	Iowa	Kansas	Kentucky	Louisiana
Maryland	Mississippi	Missouri	Nebraska	Nevada

New Mexico	North Carolina	North Dakota	Ohio	Oklahoma
Oregon	Pennsylvania	Rhode Island	South Carolina	South Dakota
Tennessee	Texas	Utah	Virginia	Washington
West Virginia	Wisconsin			

Integon Indemnity writes property & casualty, and accident & health lines of business. Integon Indemnity operates its property & casualty business through independent agents and affinity partners to write non-standard and preferred private passenger auto liability and auto physical damage, commercial auto liability and homeowners multiple peril. Integon Indemnity operates its group and individual accident & health business through a network of independent agents, direct-to-consumer marketing, and affinity partners to write accidental death and disability coverage, hospital indemnity, short-term recovery care, short-term medical, cancer and critical illness, stop loss, dental and vision plans.

Integon Preferred Insurance Company

At December 31, 2017, Integon Preferred was licensed in fifteen (15) jurisdictions:

California	Connecticut	District of Columbia	Florida	Maine
Maryland	New Hampshire	New York	North Carolina	Ohio
Rhode Island	South Carolina	Vermont	Virginia	Washington

Integon Preferred writes property & casualty lines of business. Integon Preferred operates through independent agents and affinity partners to write non-standard and preferred private passenger auto liability and auto physical damage, commercial auto liability, and homeowners multiple peril.

New South Insurance Company

At December 31, 2017, New South was licensed in twenty-nine (29) jurisdictions:

Alaska	Colorado	Connecticut	Georgia	Illinois
Indiana	Kentucky	Louisiana	Maryland	Mississippi
Missouri	Nebraska	Nevada	New York	North Carolina
North Dakota	Ohio	Oklahoma	Oregon	Pennsylvania
Rhode Island	South Carolina	South Dakota	Tennessee	Texas
Virginia	Washington	West Virginia	Wisconsin	

New South writes property & casualty lines of business. New South operates through independent agents and affinity partners to write standard auto, preferred auto, non-standard auto liability, homeowners, recreational vehicle, commercial auto liability and motorcycle insurance.

GROWTH OF THE COMPANIES

The data obtained from annual statements filed with the Department, as reflected in Appendix B, illustrates the growth of the companies within the Integon Insurance Group for the three-year period ended December 31, 2017.

ACTUARIAL OPINION

Every property and casualty insurance company doing business in this State, unless otherwise exempted by the Commissioner, shall annually submit the opinion of an appointed actuary and an actuarial opinion summary in accordance with GS § 58-10-150 and GS § 58-10-155.

The statutory reserves and related items for 2017 were reviewed and certified by the Integon Insurance Group's Appointed Actuary, Gareth L. Kennedy, ACAS, MAAA, who is associated with Ernst & Young, LLP, the Integon Insurance Group's independent auditors. Actuarial opinions regarding the reserves for loss and loss adjustment expenses for 2015 and 2016 were issued by the Integon Insurance Group's Appointed Actuary, Ronald T. Kuehn, FCAS, MAAA, CERA, CPCU, ARM, FCA of Huggins Actuarial Services, Inc.

The appointed actuaries evaluated the data provided by the Integon Insurance Group for reasonableness and consistency of the loss and loss adjustment expense reserve. According to the actuarial opinions, the reserves on the loss and loss adjustment expense met the requirements of the insurance laws of North Carolina; were consistent with reserves computed in accordance with accepted actuarial standards and principles; and made a reasonable provision for all unpaid loss and loss expense obligations of the Integon Insurance Group.

REINSURANCE PROGRAM OVERVIEW

The following table provides a summarized overview of each individual company and the reinsurance contracts in effect as of December 31, 2017:

<u>Integon National</u>		
Company Operations:	Ceded Contracts:	Assumed Contracts:
Auto Homeowners A&H	<ol style="list-style-type: none"> 1. 50% quota share ceded to affiliate, Nat Gen Re 2. 25% quota share of specified auto business is ceded to segregated accounts with affiliates AARC and APRC 3. Terminated quota share on a runoff basis with affiliates Maiden, Technology Insurance Company, and ACP Re Ltd. 4. 15% quota share of auto business ceded to Hannover Ruck SE 5. 29.6% quota share of homeowners business ceded to Everest Re, Munich Re, and 6 other reinsurers 6. Casualty Catastrophe Excess of Loss ceded to multiple reinsurers for liability only for auto, homeowners, and extra contractual obligations 7. Property Catastrophe Excess of Loss ceded to multiple reinsurers for all lender-placed business 8. Umbrella Quota Share ceded to multiple reinsurers for out-of-state drivers coverage 9. Umbrella Excess of Loss ceded to multiple reinsurers for out-of-state drivers coverage 10. Mandatory pools with NCRF, MCCA, NFIP and FCHF 	<ol style="list-style-type: none"> 1. 100% intercompany quota share assumed from 15 insurance company affiliates 2. 100% intercompany quota share assumed from 5 Direct General insurance company affiliates 3. 100% quota share of personal lines auto business assumed from Tower Group companies 4. Loss portfolio and quota share assumed from Motors Insurance Corporation, CIM Insurance Corporation and MIC Property & Casualty Insurance Corporation 5. 100% quota share of certain auto business assumed from Home State Mutual Insurance Company 6. 100% quota share of certain small group self-funded and supplemental accident and health business from Time Insurance Company and John Alden Life Insurance Company 7. 100% quota share of the lender-placed insurance business assumed from QBE Insurance Corporation, QBE Specialty Insurance Company and Praetorian Insurance Company 8. Mandatory pools with Connecticut, Massachusetts, New Jersey and Rhode Island for homeowners business

<u>Integon Casualty</u>		
Company Operations: Auto	Ceded Contracts: 1. 100% intercompany quota share ceded to Integon National 2. Mandatory pools - NCRF	Assumed Contracts: None

<u>Integon General</u>		
Company Operations: Auto	Ceded Contracts: 1. 100% intercompany quota share ceded to Integon National 2. Mandatory pools - NCRF	Assumed Contracts: None

<u>Integon Indemnity</u>		
Company Operations: Auto Homeowners A&H	Ceded Contracts: 1. 100% intercompany quota share ceded to Integon National 2. Mandatory pools - NCRF	Assumed Contracts: None

<u>Integon Preferred</u>		
Company Operations: Auto Homeowners	Ceded Contracts: 1. 100% intercompany quota share ceded to Integon National 2. Mandatory pools - NCRF	Assumed Contracts: None

<u>New South</u>		
Company Operations: Auto Homeowners	Ceded Contracts: 1. 100% intercompany quota share ceded to Integon National 2. Mandatory pools - NCRF	Assumed Contracts: None

INTERNAL REINSURANCE CEDED AND ASSUMED

The Integon Insurance Group had an intercompany pooling reinsurance agreement, effective March 1, 2010 to December 31, 2011, whereby Integon National assumed 100% of the business from the pool and then retroceded a portion of the business back to the participants. Pool participants included Integon Casualty, Integon General, Integon Indemnity, Integon Preferred, New South, National General Insurance Company, National General Assurance Association, National General Insurance Online, Inc., and MIC General Insurance Corporation. Effective January 1, 2012, the intercompany reinsurance agreement was

amended to provide for 100% quota share cession to Integon National, with no amounts retroceded to the participants, and previously pooled business was recaptured by Integon National. The quota share agreement was amended to add the following acquired insurance companies: NHIC (January 1, 2014), NGPIC formerly known as PEIC (April 1, 2014), IFCIC (June 26, 2014), National Auto (June 26, 2014), AAIC (July 1, 2014), SPCIC (October 7, 2016), and CNIC (April 1, 2017). All insurance companies in the NGHC Group except the DGLIC, DGICIN, DGICLA, DGICMS, DIC, DNIC, Adirondack Insurance Exchange, Mountain Valley Indemnity Company, New Jersey Skylands Insurance Association and New Jersey Skylands Insurance Company, currently participate in the intercompany quota share reinsurance ceding agreement. As of December 31, 2017, Integon National assumed premiums of approximately \$2 billion from affiliates under this contract.

INTERNAL REINSURANCE ASSUMED

Integon National and Direct General insurance companies (DGICIN, DGICLA, DGICMS, DIC, and DNIC) had an intercompany quota share reinsurance agreement effective January 1, 2017, whereby Integon National assumed 100% of the property & casualty business. As of December 31, 2017, Integon National assumed premiums of approximately \$621 million from affiliates under this contract.

Integon National has a quota share reinsurance agreement, effective October 31, 2014, whereby Integon National assumes 100% of the net liabilities of automotive personal lines business written by the following Tower Group affiliates: Tower Insurance Company of New York, CastlePoint National Insurance Company, Tower National Insurance Company, Hermitage Insurance Company, CastlePoint Florida Insurance Company, North East Insurance Company, York Insurance Company of Maine, Massachusetts Homeland Insurance Company, Preserver Insurance Company, and CastlePoint Insurance Company. In 2017, Integon National assumed premiums of approximately \$2 million under this contract.

Integon National has a loss portfolio and quota share reinsurance agreement with New South, Motor Insurance Corporation, CIM Insurance Corporation and MIC Property & Casualty Insurance Corporation, effective December 31, 2011. The original agreement dated February 28, 2010, was novated, whereby New South ceded, assigned and transferred to Integon National all of its rights and obligations under the original agreement. In 2017, Integon National assumed premiums of \$0 under this contract.

INTERNAL REINSURANCE CEDED

Integon National has a quota share reinsurance agreement with National General Re, Ltd (“Nat Gen Re”), an unauthorized affiliate, effective August 1, 2012, and amended and restated January 1, 2014, whereby Integon National cedes a 30% quota share participation in losses incurred on or after the effective date through December 31, 2013, and a 60% quota share participation in losses incurred after January 1, 2014. The credit taken pursuant to this agreement is collateralized by a trust arrangement. Effective October 1, 2015, this agreement was amended to change the cession percentage to 50%. The credit taken pursuant to this agreement is collateralized by a trust arrangement. On May 1, 2018, a Form D was filed with the Department for a partial commutation of this agreement. The Department approved this partial commutation agreement on June 15, 2018. In 2017, Integon National ceded premiums totaling approximately \$2 billion to Nat Gen Re under this contract.

Integon National has segregated account reinsurance agreements with Agent Alliance Reinsurance Company (“AARC”) and Allied Producers Reinsurance Company (“APRC”), affiliated captive

reinsurers, with various effective dates, whereby Integon National cedes 25% of specified commercial and auto business to AARC and APRC into six segregated accounts. In 2017, Integon National ceded premiums totaling approximately \$1 million and \$1 million to AARC and APRC, respectively, under these contracts.

Integon National had a personal and commercial automobile quota share reinsurance agreement with Maiden Insurance Company Ltd., Technology Insurance Company, Inc., and American Capital Partners Re., Ltd., effective March 1, 2010. This agreement was terminated July 31, 2013, on a run-off basis, whereby Integon National will retain 100% of the gross written premium and related losses on all new and renewal policies bound after August 1, 2013, and will continue to cede 50% of the gross written premium and related losses on policies in effect as of July 31, 2013, to the Reinsurers until the expiration of such policies. In 2017, Integon National ceded premiums of \$0 under this contract.

EXTERNAL REINSURANCE ASSUMED

Integon National has a quota share reinsurance agreement with Home State Mutual Insurance Company, effective January 1, 1996, whereby Integon National assumes 100% of certain private passenger auto, motorcycle and commercial auto business. In 2017, Integon National assumed premiums of approximately \$5 million under this contract.

Integon National has two coinsurance reinsurance agreements with Time Insurance Company and John Alden Life Insurance Company, subsidiaries of Interfinancial, Inc., effective October 1, 2015, whereby Integon National assumes 100% of certain small group self-funded and supplemental accident and health business. In 2017, Integon National assumed premiums of approximately \$92 million under this contract.

Integon National has a quota share reinsurance agreement with QBE Insurance Corporation, QBE Specialty Insurance Company and Praetorian Insurance Company, all subsidiaries of QBE North America, effective October 1, 2015, whereby Integon National assumes 100% of the lender-placed insurance business. In 2017, Integon National assumed premiums of approximately (\$15) million under this contract.

Integon National participates in mandatory pools with Connecticut, Massachusetts, New Jersey and Rhode Island, whereby Integon National assumes certain homeowners business. In 2017, Integon National assumed premiums of approximately \$2 million under these mandatory pools.

EXTERNAL REINSURANCE CEDED

Integon National has a quota share reinsurance contract with Hannover Ruck SE., effective July 1, 2017, to cede 15% of all commercial and personal auto policies in force as of July 1, 2017 and all renewal business.

Integon National has a quota share reinsurance contract with multiple reinsurers including, Everest Reinsurance Company, AXIS Reinsurance Company, Korean Reinsurance Company, Mapfre Re Compania De Resaseguros S.A., Munich Reinsurance America, Inc., Odyssey Reinsurance Company, Tokio Millennium Re, XL Reinsurance America Inc., effective July 1, 2017, to cede 29.6% of fire, allied lines, homeowners multiple peril, dwelling fire, inland marine, and lender-placed business in force as July 1, 2017 and all renewal business.

Integon National has a Casualty Catastrophe Excess of Loss reinsurance contract with multiple reinsurers, including Arch Reinsurance Company, Hannover Ruck SE, Renaissance Reinsurance US Inc., Safety National Casualty Corporation, Swiss Reinsurance America Corporation, XL Reinsurance America, Inc., and various Lloyd's Underwriter Syndicates, effective July 1, 2017, whereby Integon National cedes the excess of loss for liability business with a retention of \$5 million for the first excess layer and a retention of \$10 million for the second excess layer. The reinsurers have a per occurrence limit of \$5 million and aggregate term limit of \$10 million for the first excess layer, and a per occurrence limit of \$40 million and aggregate term limit of \$80 million for the second excess layer. Ceded lines of business include private passenger auto liability, motorcycle liability, commercial auto liability, mobile homeowners liability, homeowners liability, farmowners liability, commercial multi-peril, automotive physical damage extra contractual obligations, North Carolina Reinsurance Facility ("NCRF") extra contractual obligations, and lender-placed business assumed.

Integon National has a Property Catastrophe Excess of Loss reinsurance contract with multiple reinsurers effective May 1, 2017 through May 1, 2018, whereby Integon National cedes losses occurring from all lender-placed business including fire, allied lines, homeowners multiple peril, inland marine, and automobile physical damage. Integon National has a retention of \$70 million for the first excess layer, a retention of \$140 million for the second excess layer, and \$275 million for the third excess layer. The reinsurers have a per occurrence limit of \$70 million and aggregate term limit of \$140 million for the first excess layer, a per occurrence limit of \$135 million and aggregate term limit of \$270 million for the second excess layer, and a per occurrence limit of \$250 million and aggregate term limit of \$500 million for the third excess layer.

Integon National has an Umbrella Cessions Quota Share Reinsurance Contract with multiple reinsurers effective July 1, 2017 through July 1, 2018, whereby Integon National cedes 25% quota share of losses occurring for auto policies that include non-resident driver out-of-state insurance provisions.

Integon National has an Umbrella Excess Cessions Reinsurance Contract with multiple reinsurers effective July 1, 2017 through July 1, 2018, whereby Integon National cedes 100% of \$9 million in excess of \$1 million retention for each and every loss occurrence for auto policies that include non-resident driver out-of-state insurance provisions.

The Integon Insurance Group participates in state-mandated involuntary plans for commercial vehicles and premiums ceded to state-provided reinsurance facilities such as Michigan Catastrophic Claims Association ("MCCA") and NCRF for which the Integon Insurance Group retains no loss indemnity risk. Integon National also participates in the National Flood Insurance Program and Florida Hurricane Catastrophe Fund for coverage of applicable losses.

FINANCIAL STATEMENTS

The financial statements in Appendix A are based on the statutory financial statements filed with the Department and present the financial condition of each company in the Integon Insurance Group for the period ending December 31, 2017. The supporting tables and exhibits present the information required to be included, in conformity with reporting practices prescribed by the Department. The financial statement information related to the prior year is unexamined and is presented for comparative purposes only.

COMMENTS ON FINANCIAL STATEMENTS

There were no proposed adjustments to the Integon Insurance Group's financial statements filed with the Department as a result of this examination.

Basis of Presentation and Summary of Significant Accounting Policies

The accompanying financial statements have been prepared on the basis of the accounting practices prescribed or permitted by the Department. The more significant accounting policies followed by the Integon Insurance Group are as follows:

Bonds: Carried at amortized cost using the scientific method. Bonds with lower credit ratings are carried at the lower of amortized cost or NAIC market value. Bonds not backed by other loans are stated at amortized cost using the scientific method.

Preferred stocks: Investment grade perpetual preferred stocks are stated at fair value. Investment grade redeemable preferred stocks are stated at cost. Preferred stocks at non-investment grade are stated at the lower of cost or fair value. (Integon National and Integon Indemnity only)

Common stocks: Carried at fair value except investments in stock of subsidiaries, which are carried at a value determined under the equity method. (Integon National and Integon Indemnity only)

Cash and short-term investments: Carried at amortized cost (which approximates fair value) and includes money market instruments and debt securities with maturities of less than one year.

Premiums: Insurance premiums, net of premiums ceded to reinsurers, are earned over the terms of the policies. The portion of direct premiums written applicable to the unexpired terms of the policies is recorded as unearned premiums. Premiums are earned on a pro rata basis.

Reinsurance: Premiums, commissions, expense reimbursements, and reserves are accounted for on a basis consistent with the original policies issued and the terms of the reinsurance agreements. Premiums ceded are reported as a reduction of premium income. Losses and loss adjustment expenses are reported net of balances ceded to reinsurers. Uncollateralized amounts from unauthorized reinsurers are deducted directly from capital and surplus through a provision for unauthorized reinsurance. Changes to the provision are credited or charged directly to surplus.

Non-admitted assets: Certain assets, such as uncollected premiums over 90 days past due, excess of book value over market value for securities, electronic data processing equipment and software, prepaid expenses, and goodwill not allowed due to admissibility calculations, are "non-admitted" and are charged against surplus.

Losses & loss adjustment expense: Includes amounts determined from individual case reserves and loss reports and amounts, based on experience, for losses incurred but not reported. Estimated amounts of salvage and subrogation and reinsurance recoverable are deducted from the reserve for losses and loss adjustment expenses. (Integon National only)

Analysis of Assets

Integon National reported the following assets as nonadmitted at December 31, 2017: other invested assets totaling \$7,277,438, uncollected premiums and agents' balances in the course of collection totaling \$8,169,915, electronic data processing equipment and software totaling \$6,391,274, miscellaneous receivables totaling \$15,818,269, prepaid expense totaling \$19,757,815, goodwill totaling \$36,449,183, and renewal rights totaling \$15,123,374.

Integon Casualty reported the following assets as nonadmitted at December 31, 2017: uncollected premiums and agents' balances in the course of collection totaling \$94,046, and electronic data processing equipment and software totaling \$244,647.

Integon General reported the following assets as nonadmitted at December 31, 2017: uncollected premiums and agents' balances in the course of collection totaling \$154,194, and electronic data processing equipment and software totaling \$387,227.

Integon Indemnity reported the following assets as nonadmitted at December 31, 2017: other invested assets totaling \$16,982,424, uncollected premiums and agents' balances in the course of collection totaling \$562,990, and electronic data processing equipment and software totaling \$759,784.

Integon Preferred reported the following assets as nonadmitted at December 31, 2017: uncollected premiums and agents' balances in the course of collection totaling \$325,500, and electronic data processing equipment and software totaling \$740,269.

New South reported the following assets as nonadmitted at December 31, 2017: uncollected premiums and agents' balances in the course of collection totaling \$126,496, and electronic data processing equipment and software totaling \$412,303.

Reinsurance Activity

The companies in the Integon Insurance Group have excess of loss and quota share contracts to minimize their exposure to losses. Reinsurance contracts do not relieve the companies of their primary obligation to policyholders, and failure of the reinsurers to discharge their obligations could result in losses to the companies. The Integon Insurance Group utilizes Aon Benfield, Inc. as a reinsurance intermediary to negotiate and obtain reinsurance contracts on its behalf for specifically identified risks.

The reinsurers share in the risks at different levels as specified in the reinsurance contracts. The types of contracts and retention limits are described in the Reinsurance Program Overview.

Direct, assumed, and ceded premiums written and earned were as follows:

Integon National	2017
Direct and assumed written	\$4,233,930,766
Ceded written	2,849,554,140
Net written	1,384,376,626
Direct and assumed earned	3,727,881,182
Ceded earned	1,926,782,920
Net earned	\$1,801,098,262

Integon Casualty		2017
Direct and assumed written		\$43,248,704
Ceded written		43,248,704
Net written		-
Direct and assumed earned		24,443,538
Ceded earned		24,443,538
Net earned		\$-
Integon General		2017
Direct and assumed written		\$177,910,939
Ceded written		177,910,939
Net written		-
Direct and assumed earned		100,571,429
Ceded earned		100,571,429
Net earned		\$-
Integon Indemnity		2017
Direct and assumed written		\$356,795,873
Ceded written		356,795,873
Net written		-
Direct and assumed earned		232,149,209
Ceded earned		232,149,209
Net earned		\$-
Integon Preferred		2017
Direct and assumed written		\$238,936,328
Ceded written		238,936,328
Net written		-
Direct and assumed earned		145,529,834
Ceded earned		145,529,834
Net earned		\$-
New South		2017
Direct and assumed written		\$117,234,085
Ceded written		117,234,085
Net written		-
Direct and assumed earned		58,974,885
Ceded earned		58,974,885
Net earned		\$-

Summary of Reserves

The following provides a reconciliation of the reserves for losses and loss adjustment expenses:

Integon National	2017
Reserve for losses and loss adjustment expenses, beginning of year	\$443,608,652
Add:	
Provision for losses and loss adjustment expenses, current year	1,366,161,000
Change in estimated losses and loss adjustment expenses, prior years	5,741,545
Total incurred	<u>1,371,902,545</u>
Deduct:	
Losses and loss adjustment expenses paid, current year	847,998,000
Losses and loss adjustment expenses paid, prior year	222,259,799
Total paid	<u>1,070,257,799</u>
Reserve for losses and loss adjustment expenses, end of year	<u>745,253,398</u>
Increase in reserve for losses and loss adjustment expenses	<u>\$301,644,746</u>

Integon National reduced reserves by anticipated salvage and subrogation of approximately \$149 million at December 31, 2017.

Reserves for losses and loss adjustment expenses are reported net of the amounts that are recoverable under Integon National's reinsurance contracts. At December 31, 2017, the liability for losses and loss adjustment expenses was reduced by approximately \$1 million for amounts to be recovered from reinsurers.

Integon Casualty, Integon General, Integon Indemnity, Integon Preferred and New South each reported no reserves for losses and loss adjustment expenses at December 31, 2017.

Capital and Surplus

The following, in conjunction with the Statutory Statement Capital and Surplus in Appendix A, represents the changes in capital and surplus since the Department's last examination as of December 31, 2014:

Integon National		
	2016	2015
Capital and surplus, beginning of year	\$448,338,975	\$332,405,167
Capital and surplus increases (decreases):		
Net income (loss)	50,407,993	(9,995,072)
Change in net unrealized capital gain (loss)	12,753,152	(12,128,131)
Change in net deferred income tax	4,088,800	24,365,728
Change in nonadmitted assets	(74,841,092)	(43,424,717)
Change in provision for reinsurance	289,000	(284,000)
Surplus adjustments to paid-in capital	153,400,000	157,400,000
Change in surplus as regards policyholders for the year	146,097,853	115,933,808
Capital and surplus, end of year	\$594,436,828	\$448,338,975

Integon Casualty		
	2016	2015
Capital and surplus, beginning of year	\$6,269,352	\$11,453,127
Capital and surplus increases (decreases):		
Net income	63,761	119,762
Change in net unrealized capital gain	-	6,100
Change in net deferred income tax	71,678	84,308
Change in nonadmitted assets	(51,245)	206,055
Surplus adjustments to paid-in capital	-	(4,268,889)
Dividends to stockholders	-	(1,331,111)
Change in surplus as regards policyholders for the year	84,194	(5,183,775)
Capital and surplus, end of year	\$6,353,546	\$6,269,352

Integon General		
	2016	2015
Capital and surplus, beginning of year	\$6,305,477	\$11,310,025
Capital and surplus increases (decreases):		
Net income (loss)	(252,722)	493,073
Change in net unrealized capital gains	-	9,150
Change in net deferred income tax	513,153	(91,482)
Change in nonadmitted assets	(104,742)	84,711
Surplus adjustments to paid-in capital	-	500,000
Dividends to stockholders	-	(6,000,000)
Change in surplus as regards policyholders for the year	155,689	(5,004,548)
Capital and surplus, end of year	\$6,461,166	\$6,305,477

Integon Indemnity		
	2016	2015
Capital and surplus, beginning of year	\$37,315,552	\$32,879,174
Capital and surplus increases (decreases):		
Net (loss)	(312,467)	(2,194,830)
Change in net unrealized capital gains (losses)	(62,765)	5,676,601
Change in net deferred income tax	6,954	764,366
Change in nonadmitted assets	(13,509,861)	190,241
Change in surplus as regards policyholders for the year	(13,878,139)	4,436,378
Capital and surplus, end of year	\$23,437,413	\$37,315,552

Integon Preferred		
	2016	2015
Capital and surplus, beginning of year	\$6,768,587	\$9,323,713
Capital and surplus increases (decreases):		
Net income	140,893	323,880
Change in net unrealized capital gains (losses)	52,119	(49,071)
Change in net deferred income tax	26,998	45,386
Change in nonadmitted assets	(298,847)	124,679
Dividends to stockholders	-	(3,000,000)
Change in surplus as regards policyholders for the year	(78,837)	(2,555,126)
Capital and surplus, end of year	\$6,689,750	\$6,768,587

New South		
	2016	2015
Capital and surplus, beginning of year	\$7,632,012	\$6,890,485
Capital and surplus increases (decreases):		
Net income	118,562	202,719
Change in net unrealized capital (losses)	-	(10)
Change in net deferred income tax	93,211	47,909
Change in nonadmitted assets	16,402	490,909
Change in surplus as regards policyholders for the year	228,175	741,527
Capital and surplus, end of year	\$7,860,187	\$7,632,012

Contingencies and Commitments

The Integon Insurance Group is involved in routine legal and administrative proceedings incidental to the conduct of its business. While the outcome of these matters cannot be estimated with certainty, it is the opinion of management that the resolution of these matters will not have a material effect on the financial position of the Integon Insurance Group.

OTHER TRANSACTIONS

Effective September 13, 2017, NGHC purchased its NPS from ATNA, an affiliate, with the approval of the NGHC Audit Committee. The asset purchase and license agreement included the acquisition of the system and intellectual property, along with the associated data center and personnel.

SUBSEQUENT EVENTS

Effective February 13, 2018, the Alabama Department of Insurance approved the request for AAIC to repay the principal sum of the certificate of contribution of \$350,000 to Integon National. Effective March 24, 2018, the Board of AAIC approved to repay the certificate in full to Integon National and surrender the certificate for cancellation.

Effective May 1, 2018, NGHC terminated the affiliated Investment Management Agreement with AIM, a subsidiary of AmTrust.

Effective May 7, 2018, NGMC entered into an Investment Management Agreement with BlackRock Financial Management, Inc. to provide investment management services on behalf of NGHC and all subsidiaries.

Effective August 16, 2018, NGHC Group was assigned a separate NAIC Group Code No. 4928.

On November 13, 2018, NGHC announced its plan to acquire National Farmers Union Property and Casualty Company, a Wisconsin domiciled insurer, from QBE North America pending regulatory approval.

Effective November 20, 2018, John Engeman was appointed as Treasurer for the NGHC Group, replacing Peter Rendall as Treasurer.

Effective November 20, 2018, Peter Rendall was appointed as Chief Operating Officer for the NGHC Group.

**Integon Insurance Group
REPORT DISTRIBUTION
December 31, 2017**

Donald Bolar
Vice President and Chief Accounting Officer
5630 University Parkway
Winston-Salem, North Carolina 27105

Barry Karfunkel
President and Chief Executive Officer
59 Maiden Lane, 38th Floor
New York, New York 10038

Michael Weiner
Chief Financial Officer
59 Maiden Lane, 38th Floor
New York, New York 10038

Jeffrey Weissmann
Senior Vice President, General Counsel & Secretary
59 Maiden Lane, 38th Floor
New York, New York 10038

CONCLUSION

The examination procedures, described, herein, revealed no material adverse findings or adjustments to surplus.

We conclude that Integon National, Integon Casualty, Integon General, Integon Indemnity, Integon Preferred and New South are in compliance with the minimum capital and surplus requirements of GS § 58-7-75 for the kind of insurance that each company has been authorized to write, which is \$2,250,000 on a standalone basis for each company.

The courteous cooperation and assistance extended by the officers and employees of the companies during the examination is hereby acknowledged.

Respectfully submitted,



Ke Xu, CPA, CFE
Chief Financial Examiner
North Carolina Department of Insurance

May 22, 2019

STATE OF NORTH CAROLINA

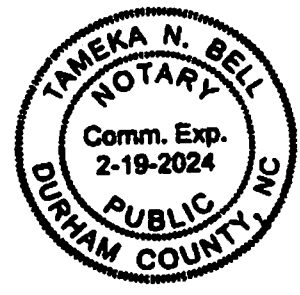
COUNTY OF WAKE

Bill Keely, CPA, Examination Supervisor, North Carolina Department of Insurance, being first, duly sworn, deposes and says that this multi-entity report on examination, subscribed by him is true and correct to the best of his knowledge and belief.

Signature: Bill Keely Date: 5/22/19
Bill Keely

Sworn and subscribed before me this 22nd day of May, 2019.

Notary Public Signature: Jameka N Bell Notary Public Seal:



STATE OF NORTH CAROLINA

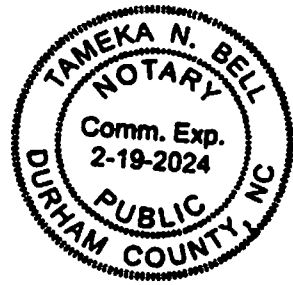
COUNTY OF WAKE

Joanne Smith, CFE, MCM, Examiner-In-Charge, Johnson Lambert LLP, representing the North Carolina Department of Insurance, being first, duly sworn, deposes and says that this multi-entity report on examination, subscribed by her is true and correct to the best of her knowledge and belief.

Signature: Joanne Smith Date: 5/22/19
Joanne Smith

Sworn and subscribed before me this 22nd day of May, 2019.

Notary Public Signature: Tameka N. Bell Notary Public Seal:



Integon Insurance Group
Appendix A
December 31, 2017
2017 Statutory Statement of Admitted Assets

	Integon National	Integon Casualty	Integon General	Integon Indemnity	Integon Preferred	New South
Bonds	\$1,868,650,474	\$6,318,797	\$12,044,051	\$15,800,575	\$7,183,999	\$7,854,849
Preferred stocks	2,220,454	-	-	230,000	-	-
Common stocks	95,365,704	-	-	13,252,640	-	-
Properties held for the production of income	15,038,165	-	-	-	-	-
Cash, cash equivalents and short-term investments	(111,435,903)	263,559	530,984	275,408	630,133	387,670
Other invested assets	62,150,000	-	-	-	-	-
Receivables for securities	13,881,201	-	-	485,870	-	-
Total cash and invested assets	\$1,945,870,095	\$6,582,356	\$12,575,035	\$30,044,493	\$7,814,132	\$8,242,519
Investment income due and accrued	11,765,889	48,560	44,432	71,647	17,470	72,834
Uncollected premiums and agents' balances in course of collection	248,639,394	1,437,694	11,228,135	26,561,936	6,472,558	4,382,972
Deferred premiums, agents' balances and installments booked but deferred and not yet due	804,050,998	15,763,179	58,347,337	87,118,194	60,308,517	39,116,586
Amounts recoverable from reinsurers	311,043,753	2,474,987	10,839,546	28,767,759	25,002,205	10,860,800
Other amounts receivable under reinsurance contracts	166,109,752	-	-	-	-	-
Net deferred tax asset	32,011,399	-	-	-	-	-
Receivable from parent, subsidiaries and affiliates	207,227,198	-	1,717,520	12,892,992	-	-
Miscellaneous Receivables	39,291,713	-	208,230	79,434	208,230	-
State and local tax receivable	-	-	16,057	-	-	-
Total admitted assets	\$3,766,010,190	\$26,306,776	\$94,976,292	\$185,536,455	\$99,823,112	\$62,675,711

Integon Insurance Group
Appendix A
December 31, 2017
2017 Statutory Statement of Liabilities, Surplus and Other Funds

	Integon National	Integon Casualty	Integon General	Integon Indemnity	Integon Preferred	New South
Losses	\$614,971,577	-	-	-	-	-
Reinsurance payable on paid losses and LAE	161,525,115	-	423,533	13,396	-	-
Loss adjustment expenses	130,281,821	-	-	-	-	-
Commissions payable and contingent commissions	15,444,303	-	-	-	-	-
Other expenses	175,740,926	-	-	-	-	-
Taxes, licenses and fees	41,980,657	-	-	-	1,450	-
Current federal and foreign income taxes	55,977,930	10,731	64,899	382,246	9,408	40,474
Net deferred tax liability	-	12,914	336,097	755,850	28,508	285,752
Unearned premiums	636,554,456	-	-	-	-	-
Advance premium	10,162,184	-	-	-	-	-
Ceded reinsurance premiums payable	758,027,426	19,680,237	87,468,008	164,077,916	82,023,891	49,667,311
Funds held by company under reinsurance treaties	182,982,440	-	-	-	-	-
Amounts withheld or retained for account of others	844,375	-	-	-	-	-
Provision for reinsurance	456,000	-	-	-	-	-
Payable to parent, subsidiaries and affiliates	-	196,978	-	-	11,283,313	4,302,913
Payable for securities	3,000,000	-	-	-	-	-
Unearned commission revenue	94,387	-	-	-	-	-
Unearned referral fees	7,334	-	-	-	-	-
Accounts payable guaranty funds	1,804	-	-	-	-	-
Accounts payable escheatable funds	7,508,980	-	-	-	-	-
Unearned service contract revenue reserve	63,597	-	-	-	-	-
Total liabilities	\$2,795,625,312	\$19,900,860	\$88,292,537	\$165,229,408	\$93,346,570	\$54,296,450
Special Surplus Funds: ACA Health Insurer Fee	103,723	-	-	-	-	-
Common capital stock	3,500,000	3,000,000	3,000,000	3,000,000	3,150,000	3,000,000
Gross paid in and contributed surplus	868,268,432	3,752,998	(6,027,387)	8,745,974	5,490,017	-
Unassigned funds (surplus)	98,512,722	(347,082)	9,711,142	8,561,073	(2,163,475)	5,379,261
Surplus as regards policyholders	970,384,877	6,405,916	6,683,755	20,307,047	6,476,542	8,379,261
Total liabilities, capital and surplus	\$3,766,010,190	\$26,306,776	\$94,976,292	\$185,536,455	\$99,823,112	\$62,675,711

Integon Insurance Group
Appendix A
December 31, 2017
2017 Statutory Statement of Income

	Integon National	Integon Casualty	Integon General	Integon Indemnity	Integon Preferred	New South
Underwriting Income (Loss)						
Premiums earned	\$1,801,098,263	-	-	-	-	-
Deductions						
Losses incurred	1,076,813,827	-	-	-	-	-
Loss adjustment expenses incurred	295,088,718	-	-	-	74	-
Other underwriting expenses incurred	555,963,013	-	4,829	2,799	6,559	190
Miscellaneous underwriting deductions	332	-	-	-	-	7
Total underwriting deductions	1,927,865,890	-	4,829	2,799	6,633	197
Net underwriting (loss)	(126,767,627)	-	(4,829)	(2,799)	(6,633)	(197)
Investment Income						
Net investment income earned	55,806,461	123,654	465,595	671,178	316,018	225,307
Net realized capital gains	18,162,140	(4,044)	60,224	8,729	13,436	57,683
Net investment gain	73,968,601	119,610	525,819	679,907	329,454	282,990
Net (loss) from agent's or premium balances charged off	(60,907,014)	-	-	-	-	-
Finance and service charges not included in premiums	165,356,209	-	-	-	-	-
Late charges and other admin fees	24,555,766	-	-	-	-	-
Service Fee Income	67,160,669	-	-	-	-	-
Other income	58,760,566	-	-	-	-	-
Total other income	254,926,196	-	-	-	-	-
Net income before dividends to policyholders	202,127,169	119,610	520,990	677,108	322,821	282,793
Federal and foreign income taxes incurred	56,756,478	60,993	79,278	1,704,521	18,343	146,725
Net Income (Loss)	\$145,370,691	\$58,617	\$441,712	\$(1,027,413)	\$304,479	\$136,068

Integon Insurance Group
Appendix A
December 31, 2017
2017 Statutory Statement of Capital and Surplus

	Integon National	Integon Casualty	Integon General	Integon Indemnity	Integon Preferred	New South
Surplus as regards policyholders, prior year	\$594,436,828	\$6,353,546	\$6,461,166	\$23,437,413	\$6,689,750	\$7,860,187
Net Income	145,370,691	58,617	441,712	(1,027,413)	304,479	136,068
Change in net unrealized capital gains	(3,434,612)	(9,480)	-	2,177,507	-	-
Change in net deferred income tax	(57,396,613)	(13,108)	102,785	374,510	(141,576)	258,446
Change in non-admitted assets	38,300,987	16,341	(321,908)	(4,654,970)	(376,111)	124,560
Change in provision for reinsurance	(456,000)	-	-	-	-	-
Surplus adjustments to paid-in capital	195,076,225	-	-	-	-	-
Prior Year Adjustment	58,487,371	-	-	-	-	-
Change in capital and surplus as regards policyholders for the year	375,948,049	52,370	222,589	(3,130,366)	(213,208)	519,074
Surplus as regards policyholders, current year	\$970,384,877	\$6,405,916	\$6,683,755	\$20,307,047	\$6,476,542	\$8,379,261

Integon Insurance Group
Appendix A
December 31, 2017
2017 Statutory Statement of Cash Flow

	Integon National	Integon Casualty	Integon General	Integon Indemnity	Integon Preferred	New South
Cash From Operations						
Premiums collected net of reinsurance	\$1,306,526,771	(\$1,182,578)	\$8,095,227	\$13,491,066	\$2,921,144	\$641,134
Net investment income	58,503,449	117,849	527,860	701,519	326,745	221,982
Miscellaneous income	254,926,196	-	-	-	-	-
Total	1,619,956,415	(1,064,729)	8,623,087	14,192,585	3,247,889	863,116
Benefit and loss related payments	876,748,557	(1,271,791)	4,859,403	(1,444,821)	15,793,610	3,030,361
Commissions, expenses paid and aggregate write-ins for deductions	558,126,419	-	4,829	2,799	5,185	190
Federal and foreign income taxes paid	3,840,647	27,771	10,699	447,980	29,746	115,983
Total	1,438,715,623	(1,244,020)	4,874,931	(994,042)	15,828,541	3,146,534
Net cash from operations	181,240,792	179,291	3,748,156	15,186,627	(12,580,652)	(2,283,418)
Cash From Investments						
Total investment proceeds from investments sold, matured or repaid	1,340,604,681	3,958,085	6,076,178	668,943	2,197,389	4,161,825
Total cost of investments acquired (long-term only)	1,324,744,316	4,448,324	7,545,289	6,200,094	2,339,895	4,262,948
Net cash (Used By) from investments	15,860,365	(490,239)	(1,469,111)	(6,017,021)	(142,506)	(101,123)
Cash From Financing and Miscellaneous Sources						
Cash from capital and paid in surplus	(39,593,427)	-	-	-	-	-
Other cash provided (applied)	(229,092,305)	138,151	(2,141,180)	(9,136,556)	13,231,923	1,969,736
Net cash from (used by) financing and miscellaneous sources	(268,685,732)	138,151	(2,141,180)	(9,136,556)	13,231,923	1,969,736
Reconciliation of Cash, Cash Equivalents and Short-Term Investments						
Net change in cash and short-term investments	(71,584,575)	(172,797)	137,865	33,050	508,765	(414,805)
Cash and short-term investments, beginning of year	(39,851,328)	436,356	393,119	242,358	121,367	802,475
Cash and short-term investments, end of year	\$(111,435,903)	\$263,559	\$530,984	\$275,408	\$630,133	\$387,670

Integon Insurance Group
Appendix B
December 31, 2017

Growth of the Company

The following data, obtained from annual statements filed with the Department, illustrates the trends of the companies for the three-year period ended December 31, 2017:

Integon National Insurance Company

Year	Net Admitted Assets	Capital and Surplus	Gross Premiums Written	Net Earned Premiums	Net Income (Loss)
2017	\$3,766,010,190	\$970,384,877	\$4,233,930,766	\$1,801,098,263	\$145,370,691
2016	\$2,489,206,551	\$594,436,828	\$2,828,230,466	\$1,430,951,670	\$50,407,993
2015	\$2,339,490,227	\$448,338,975	\$2,387,503,199	\$846,608,511	(\$9,995,072)

Integon Casualty Insurance Company

Year	Net Admitted Assets	Capital and Surplus	Gross Premiums Written	Net Earned Premiums	Net Income (Loss)
2017	\$26,306,776	\$6,405,916	\$43,248,704	-	\$58,617
2016	\$39,342,969	\$6,353,546	\$67,122,165	-	\$63,761
2015	\$41,133,373	\$6,269,352	\$73,727,158	-	\$119,762

Integon General Insurance Corporation

Year	Net Admitted Assets	Capital and Surplus	Gross Premiums Written	Net Earned Premiums	Net Income (Loss)
2017	\$94,976,292	\$6,683,755	\$177,910,939	-	\$441,712
2016	\$41,919,176	\$6,461,166	\$78,427,536	-	(\$252,722)
2015	\$30,895,739	\$6,305,477	\$44,654,421	-	\$493,073

Integon Insurance Group
Appendix B
December 31, 2017

Integon Indemnity Corporation

Year	Net Admitted Assets	Capital and Surplus	Gross Premiums Written	Net Earned Premiums	Net Income (Loss)
2017	\$185,536,455	\$20,307,047	\$356,795,873	-	(\$1,027,413)
2016	\$102,229,068	\$23,437,413	\$177,474,168	-	(\$312,467)
2015	\$67,264,499	\$37,315,552	\$44,031,695	-	(\$2,194,830)

Integon Preferred Insurance Company

Year	Net Admitted Assets	Capital and Surplus	Gross Premiums Written	Net Earned Premiums	Net Income (Loss)
2017	\$99,823,112	\$6,476,542	\$238,936,328	-	\$304,479
2016	\$73,510,191	\$6,689,750	\$187,639,034	-	\$140,893
2015	\$59,824,321	\$6,768,587	\$145,415,764	-	\$323,880

New South Insurance Company

Year	Net Admitted Assets	Capital and Surplus	Gross Premiums Written	Net Earned Premiums	Net Income (Loss)
2017	\$62,675,711	\$8,379,261	\$117,234,085	-	\$136,068
2016	\$50,429,276	\$7,860,187	\$96,614,405	-	\$118,562
2015	\$54,557,796	\$7,632,012	\$111,472,072	-	\$202,719