

# UNITRIN®

October 13, 2010

Via e-mail [GayleP@OIC.WA.GOV](mailto:GayleP@OIC.WA.GOV)

Mike Kreidler  
Insurance Commissioner  
Washington State Office of the Insurance Commissioner  
P.O. Box 40256  
Olympia, WA 98504-0256

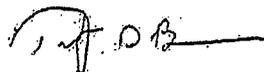
RE: Redomestication of National Merit Insurance Company  
NAIC # 39004

Dear Commissioner Kreidler:

Management's desire to redomesticate National Merit Insurance Company from Washington to Illinois is premised on our need to simplify administration of the companies within the Unitrin Direct operating segment. Unitrin Direct currently has six companies domiciled in Illinois. Redomesticating National Merit to Illinois and eliminating Washington as a state of domicile enhances management of the operating segment by consolidating financial and legal reporting, financial examinations, and other management and reporting responsibilities. That, in turn, will reduce operating expenses for the companies and enhance our operating capabilities.

If you have any questions or need additional information, please contact Margaret O'Hara, corporate secretary, at either 312.661.4542 or [mohara@unitrin.com](mailto:mohara@unitrin.com).

Very truly yours,  
NATIONAL MERIT INSURANCE COMPANY



Timothy D. Bruns  
President

TDB/klh

Unitrin Direct

One East Wacker Drive, Suite 3700 • Chicago, Illinois 60601

## GENERAL SERVICE AGREEMENT

This General Service Agreement is made and entered into as of August 1, 2009 between Unitrin Services Company, an Illinois corporation with offices at One East Wacker Drive, Chicago, Illinois ("Unitrin Services"), and National Merit Insurance Company, a Washington corporation with offices at 500 South Broad Street, Meriden, Connecticut ("Company").

**WHEREAS**, Unitrin Services and the Company are affiliates; and

**WHEREAS**, Company desires to contract for certain services from Unitrin Services and Unitrin Services desires to provide such services to Company; and

**WHEREAS**, in providing such services all corporate expenses incurred ("Corporate Expenses") and payments received shall be allocated to the Company in conformity with customary insurance accounting practices consistently applied; and

**WHEREAS**, in connection with providing such services Unitrin Services may incur out-of-pocket expenses directly attributable to its affiliates; and

**WHEREAS**, in recording such corporate and out-of-pocket expenses no element of profit or markup is added thereto, all such expenses being charged on an actually incurred or closely estimated basis;

**NOW, THEREFORE**, in consideration of the premises and the promises contained herein, Unitrin Services and Company agree as follows:

1. The Company agrees to pay Unitrin Services its share of the Corporate Expenses (as determined in accordance with paragraph 2 below) in consideration of

receiving the following services from Unitrin Services: trade execution and investment analysis; financial accounting and reporting; purchasing and accounts payable; investment accounting; tax return preparation; tax accounting and tax advice; maintenance of benefit plans (such as life, health, disability, pension and savings benefit plans); administration of post-retirement medical benefits (if applicable); benefit plan regulatory reporting and support, risk management (including corporate insurance); automobile fleet management; internal audit including field audit; cash management and bank relations; financial planning and analysis of results of operations; capital project review and evaluation; real estate management; corporate secretarial functions; and legal support and advice.

2. (a) For all services provided to the Company other than legal support, field audit, maintenance of benefit plans, administration of post-retirement medical benefits, and benefit plan regulatory reporting and support, the Corporate Expenses associated with such services shall be allocated pro rata based on revenues of the Company as a percentage of the revenues of all affiliates of Unitrin Services (including the Company) to which Unitrin Services renders services under a written general service agreement. For purposes of this Agreement, "revenues" means premium revenues plus net investment income.

(b) For legal support services, the Corporate Expenses associated with such services shall be allocated to the Company in the manner described in paragraph 2(a) above, except for litigation case management and support services provided by staff attorneys and legal assistants of Unitrin Services, the cost of which shall be allocated to the Company based on the number of hours actually devoted to litigation matters for the Company by such attorneys and legal assistants plus actual travel costs incurred, if any. Hourly rates for each attorney and legal assistant shall be computed by (i) totaling his or her annual cash compensation (including bonuses) plus related payroll taxes and benefits costs borne by Unitrin Services, and (ii) dividing such total by 1,875. Such hourly rates shall be adjusted as and when changes occur in the cash compensation, payroll taxes or benefits costs of such

attorneys and legal assistants. No element of profit or markup shall be added to such compensation.

(c) For field audit services, the Corporate Expenses associated with such services shall be allocated to the Company based on the number of hours actually devoted to providing such services plus actual travel costs incurred, if any. Hourly rates for each field auditor shall be computed by (i) totaling his or her annual cash compensation (including bonuses) plus related payroll taxes and benefits costs borne by Unitrin Services, and (ii) dividing such total by 1,875. Such hourly rates shall be adjusted as and when changes occur in the cash compensation, payroll taxes or benefits costs of such field auditors. No element of profit or markup shall be added to such compensation.

(d) For maintenance of benefit plans, administration of post-retirement medical benefits, and benefit plan regulatory reporting and support, the Corporate Expenses associated with such services shall be allocated to the Company based on either (i) the Company's total full-time equivalent employees in relation to total full-time equivalent employees of Unitrin, Inc. and its subsidiaries, or (ii) the Company's total participants, including retirees, in a particular benefits plan to the total number of participants, including retirees, in such plan.

In addition, the Company shall reimburse Unitrin Services for all out-of-pocket expenses directly attributable to Company.

3. Invoices for services provided and out-of-pocket expenses incurred hereunder shall be prepared by Unitrin Services and forwarded to Company monthly. Such invoices shall state the services provided and the charges attributable thereto, as well as the amount and description of any out-of-pocket expenses incurred. Payments for services and expenses hereunder shall be made by Company to Unitrin Services within 30 days after the end of the month in which such invoices are received.

4. Subject to approval by the appropriate regulatory authorities, this Agreement (a) shall become effective as of the date first specified above and shall be unlimited as to duration unless terminated by either Unitrin Services or Company upon not less than sixty (60) days prior written notice to the other, and (b) may be amended from time to time by a written instrument executed by the parties hereto.

5. If any part of this Agreement is contrary to, prohibited by, or deemed invalid under applicable law or regulations, that provision shall not apply and shall be omitted to the extent so contrary, prohibited or invalid, but the remainder of this Agreement shall not be invalidated and shall be given full force and effect insofar as possible.

6. Detailed books, accounts and records ("Records") related to this Agreement shall be maintained by each of Unitrin Services and the Company. The Records of Unitrin Services shall be owned and remain the separate property of Unitrin Services, and the Records of the Company shall be owned and remain the separate property of the Company. Under no circumstances shall the Records of Unitrin Services and the Company be deemed to be jointly-owned property. Such Records shall clearly and accurately disclose the precise nature and details of the transactions contemplated by this Agreement, including such accounting information as is necessary to support the reasonableness of the charges and expenses to the Company. Charges and expenses shall be allocated fairly and equitably in conformity with customary insurance accounting practices consistently applied. The Records of the Company, and any data associated with such Records, will be maintained in Connecticut and made available to the Connecticut Commissioner of Insurance, or the Commissioner's designees.

7. Notwithstanding any other provision in this Agreement, it is understood that the business and affairs of the Company shall be managed by its Board of Directors and, to the extent delegated by such board, by its appropriately designated officers. The Board of

Directors and officers of Unitrin Services shall not have any management prerogatives with respect to the affairs and operations of the Company.

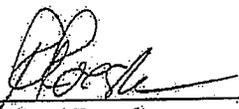
8. Unitrin Services shall indemnify and hold the Company harmless from and against all damages, judgments, settlements, costs and expenses that arise out of or result from Unitrin Services' negligence or intentional misconduct in providing any of the services contemplated by this Agreement.

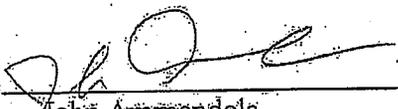
9. This Agreement shall be construed, interpreted and enforced in accordance with the laws of the State of Washington, excluding any choice of law rules that may direct the application of the laws of another jurisdiction.

IN WITNESS WHEREOF, Unitrin Services and Company have caused this General Service Agreement to be executed by their duly authorized representatives.

UNITRIN SERVICES COMPANY

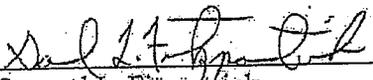
NATIONAL MERIT INSURANCE  
COMPANY

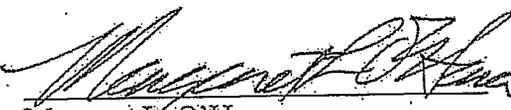
By:   
Richard Roeske  
Vice President

By:   
John Ammendola  
President

ATTEST:

ATTEST:

  
Samuel L. Fitzpatrick  
Assistant Secretary

  
Margaret L. O'Hara  
Secretary

## ASSIGNMENT AND CONSENT

This Assignment and Consent is made and entered into by and among NATIONAL MERIT INSURANCE COMPANY, a Washington insurance company ("Company"), TRINITY UNIVERSAL INSURANCE COMPANY, a Texas insurance company ("TRINITY"), and MERASTAR INSURANCE COMPANY, an Indiana insurance company ("MERASTAR").

**WHEREAS**, the Company and TRINITY have entered into an Amended and Restated 100% Quota Share Reinsurance Agreement, effective July 1, 2009 ("Quota Share Agreement") pursuant to which the Company cedes to TRINITY a 100% quota share participation in the Company's liabilities on its in-force, new and renewal business ("Ceded Policies");

**WHEREAS**, pursuant to the terms of the Quota Share Agreement, TRINITY agrees to administer the Ceded Policies but reserves the right to assign some or all of its administrative obligations to one or more of its affiliates who agree to be bound by the provisions of the Quota Share Agreement governing administration of the Ceded Policies;

**WHEREAS**, the Company, TRINITY and MERASTAR are affiliates, and MERASTAR wishes to provide the administrative services that TRINITY is obligated to provide to the Company pursuant to the terms of the Quota Share Agreement; and

**WHEREAS**, the Company and MERASTAR entered into a Services Agreement, effective January 1, 2010 (the "Services Agreement") pursuant to which MERASTAR will provide such services to the Company.

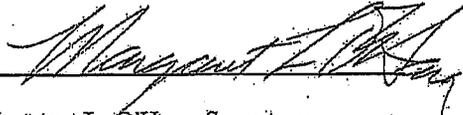
**NOW THEREFORE**, for and in consideration of the foregoing premises and other good and valuable consideration, the sufficiency of which is hereby acknowledged, the parties enter into this Assignment and Consent and agree as follows:

1. TRINITY hereby assigns its responsibility and obligations to provide administrative services pursuant to Article V and the Service Schedule of the Quota Share Agreement to MERASTAR and agrees to reimburse MERASTAR for the cost of providing those services by assuming and performing the Company's payment obligations under the terms of the Services Agreement.
2. MERASTAR hereby accepts the assignment of TRINITY'S administrative responsibility and obligations under the terms of Article V and the Service Schedule of the Quota Share Agreement and agrees to be bound by such terms. MERASTAR hereby consents to TRINITY'S assumption of the Company's payment obligations under the terms of the Services Agreement and agrees to accept such payments from TRINITY.
3. The Company hereby consents to the above assignment of TRINITY'S administrative responsibility and obligations and further agrees that MERASTAR shall perform such administrative responsibility and obligations pursuant to the terms of the Services Agreement.

4. Nothing in this Assignment and Consent shall relieve TRINITY of its fiduciary obligations pursuant to Paragraph C of Article III of the Quota Share Agreement with respect to premium funds collected for the policies reinsured under the Quota Share Agreement.
5. This Assignment and Consent shall continue in full force and effect during the term of the Services Agreement, unless earlier terminated by any party hereto upon not less than ninety (90) days' prior written notice to each of the other parties.
6. This Assignment and Consent shall be construed and interpreted according to the internal laws of the State of Washington, excluding any choice of law rules that may direct the application of the laws of another jurisdiction.
7. This Assignment and Consent may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.
8. This Assignment and Consent shall not be assigned and shall inure to the benefit of the parties and be binding upon their successors and assigns.

IN WITNESS WHEREOF, the parties hereto have caused this instrument to be duly executed by their respective corporate officers as of the 1<sup>st</sup> day of January, 2010.

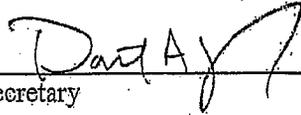
Attest:

  
 \_\_\_\_\_  
 Margaret L. O'Hara, Secretary

NATIONAL MERIT INSURANCE  
 COMPANY

By: T. D. B.  
 Name: Timothy D. Bruns  
 Title: President

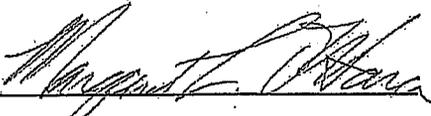
Attest:

  
 \_\_\_\_\_  
 Secretary

TRINITY UNIVERSAL  
 INSURANCE COMPANY

By: Dawn A. Roberts  
 Title: VP & Treasurer

Attest:

  
 \_\_\_\_\_  
 Secretary

MERASTAR INSURANCE COMPANY

By: T. D. B.  
 Name: Timothy D. Bruns  
 Title: President

## COMPUTER SERVICES AGREEMENT

This Computer Services Agreement ("Agreement") is made and entered into effective as of August 1, 2009 between Unitrin Services Company, an Illinois corporation with offices at One East Wacker Drive, Chicago, Illinois ("Unitrin Services"), and National Merit Insurance Company, a Washington corporation with offices at 500 South Broad Street, Meriden, Connecticut ("Client").

### A. COMPUTER SERVICES.

1. Unitrin Services will provide computer data processing services to Client under the terms of this Agreement. Unitrin Services shall provide these services using such of the following components (the "Systems") as Unitrin Services may from time to time maintain at any of its data center facilities or, at Unitrin Services' discretion, at any of its Client's facilities: (i) mainframe, midrange and minicomputer and other central processors and controllers; (ii) data storage devices, cartridge and tape drives; (iii) MVS, UNIX and other operating system software; (iv) database management software (exclusive of applications running under such software); (v) CICS and other transaction processing software; (vi) groupware, middleware and network software; (vii) routers and other network and telecommunications equipment and lines located at its data center facilities; and (viii) internet and intranet access software and systems. Unless otherwise agreed by Unitrin Services, Client shall supply its own terminals, personal computers, workstations, monitors, modems, printers and other equipment necessary to use the Systems ("Client Equipment").
2. To the extent technically possible, Client may run batch processing jobs on the Systems, as well as real time operations. Unitrin Services will supply personnel for computer operations, network operations, network security, consulting services, general Systems support and consultation, and any other services deemed necessary for the efficient operation of Unitrin Services' computing services. However, Client shall otherwise be responsible for performing its own operations with and on the Systems. Client may access the Systems during hours published by Unitrin Services, which hours may be changed by Unitrin Services from time to time at its discretion. Unitrin Services will cooperate to the extent reasonably practicable in requests for use of the Systems outside of such hours.
3. Unitrin Services shall have sole responsibility for maintaining the Systems. Client shall have sole responsibility for maintaining its Client Equipment. Client shall also have sole responsibility for selecting its applications software (provided that it first consults with Unitrin Services to determine the compatibility of such software with the Systems), and for loading it on the Systems, maintaining, debugging, modifying and otherwise using such

software.

4. Client shall access the Systems using policies and procedures created by Unitrin Services. Client is responsible for conforming to each of Unitrin Services' published policies.
5. Unitrin Services will perform regular backups of the Systems. Client shall be solely responsible for backing up whatever applications software and data it may have on the Systems from time to time.
6. Unitrin Services will project its expected costs for maintaining and operating the Systems semi-annually (or such other frequency as it may from time to time determine) using generally accepted accounting principles. Unitrin Services will invoice Client monthly for its proportionate share of the budgeted cost of the Systems based on Client's projected usage of the Systems for such period, plus any direct expenses incurred on behalf of Client (e.g., communication lines). Client shall also be invoiced for all taxes, if any, that are levied on Unitrin Services with respect to Client's usage of the Systems. At the end of each such semi-annual (or other) period, Unitrin Services shall reconcile its budgeted cost and Client's projected usage with Unitrin Services' actual cost and Client's actual usage of the Systems for such period, and to the extent the actual costs allocated to Client were less than Client's budgeted costs for the Systems, Unitrin Services shall reimburse Client in the amount of the excess or apply such excess to the Client's expense for the use of the Systems in the following period, if applicable. To the extent Client's share of actual costs or actual usage was greater than Client's budgeted costs or usage for the Systems, Unitrin Services shall bill Client for its proportionate share of the costs in excess of the budget.

## **B. ACQUISITIONS.**

### **1. EQUIPMENT ACQUISITIONS.**

Unitrin Services may from time to time at Client's request purchase, lease, license or otherwise acquire computer hardware and equipment ("Equipment") on behalf of Client. Such Equipment may be installed at a Unitrin Services data center, at a Client office or at any other location within the United States that Client may request. For purposes of this Agreement, Equipment shall include, but not be limited to, mainframe computers, midrange computers, minicomputers, personal computers, computer workstations, data storage devices, drives, tapes, cartridges, laser disk devices, "juke boxes," monitors, printers, plotters, modems, multiplexers, telecommunications devices, scanners, imaging systems, local and wide area network equipment, as well as cables, connectors, chips, cards, boards and any operating system software or

utilities relating to any of the foregoing.

2. SOFTWARE ACQUISITIONS.

Unitrin Services may, from time to time at Client's request, license or otherwise acquire computer software ("Software"). The license for such Software and any ancillary agreements thereto may contain such terms and conditions as may be satisfactory to Unitrin Services and Client including, without limitation, terms and conditions relating to: (i) the cost, duration and type of license; (ii) transferability of the license; (iii) vendor warranties and indemnities; (iv) maintenance and support obligations of the vendor; (v) options, discounts or credits on future licenses by Client, Unitrin Services or any of their affiliates; (vi) acquisition of Software on an evaluation or "beta test" basis; or (vii) the right of the licensee to obtain source code upon events of default by the vendor (commonly known as "source code escrows"). The licensee under any such license may, at Unitrin Services' discretion, be Unitrin Services, Client, or an affiliate of either company, provided that Client acquires usage rights acceptable to it. The license of any such Software may provide for the use of such Software by any affiliate of Unitrin Services or Client or the right of any such entities to license or acquire additional copies of such Software so long as Client's usage rights are not impeded. For purposes hereof, an "affiliate" of Unitrin Services or Client shall mean any corporation or other person or entity controlling, controlled by or under common control with, either of them.

3. ACQUISITION COSTS:

At Unitrin Services' discretion, Unitrin Services may either: (i) bill Client for its proportionate amount of the cost of such Equipment or Software, including shipping charges, sales and similar taxes; (ii) bill Client for its proportionate share of Unitrin Services lease or license cost for Equipment or Software; or (iii) bill Client a reasonable depreciation charge for Equipment or Software. In no event shall the cost to Client for any acquisition by Unitrin Services of Equipment or Software on its behalf be at prices or on terms less favorable than Client could reasonably be expected to receive if it were to acquire such Equipment or Software directly.

C. CONSULTING AND OTHER SERVICES.

Unitrin Services' shall provide consulting and related services to Client from time to time at Client's request, subject in all cases to the availability of personnel. Such services shall include, but not be limited to: (i) pre-acquisition evaluation of Equipment or Software; (ii) negotiation or advice concerning the terms and conditions of proposed acquisitions of Equipment or Software; (iii) implementation

and/or installation of Equipment or Software; (iv) advice or assistance in the use, maintenance, enhancement, reconfiguration or replacement of Equipment or Software; (v) advice and assistance relative to network, data and systems security issues; and (vi) advice and assistance with disaster recovery capabilities. Unitrin Services may assess reasonable charges for any services rendered pursuant to this paragraph, which charges shall be a blended hourly rate based on the average salary and employee benefits cost of applicable employees of Unitrin Services or its affiliates, plus any other applicable overhead costs, not to exceed a total hourly rate of \$200 per hour. Unitrin Services may also charge Client for all out-of-pocket expenses (including travel) incurred in rendering services contemplated by this paragraph, so long as such charges are in accordance with Client's policy on expense reimbursement.

**D. INDEMNIFICATION.**

Unitrin Services shall indemnify and hold Client harmless from and against all damages, judgments, settlements, costs and expenses that arise out of or result from Unitrin Services' negligence or intentional misconduct in providing any of the services contemplated by this Agreement.

**E. MISCELLANEOUS.**

1. Subject to the approval of any regulatory authorities, as may be required, this Agreement (a) shall become effective as of the date first specified above and shall be unlimited as to duration unless terminated by either Unitrin Services or Client upon not less than sixty (60) days prior written notice to the other, and (b) may be amended from time to time by a written instrument executed by the parties hereto.
2. Invoices for services provided and out-of-pocket expenses incurred hereunder shall be prepared by Unitrin Services and forwarded to Client monthly. Such invoices shall state the services provided and the charges attributable thereto, as well as the amount and description of any out-of-pocket expenses incurred. Payments for services and expenses hereunder shall be made by Client to Unitrin Services within 30 days after the end of the month in which such invoices are received.
3. Detailed books, accounts and records ("Records") related to this Agreement shall be maintained by each of Unitrin Services and the Client. The Records of Unitrin Services shall be owned by and remain the separate property of Unitrin Services, and the Records of the Client shall be owned by and remain the separate property of the Client. Under no circumstances shall the Records of Unitrin Services and the Client be deemed to be jointly-owned property. Such Records shall clearly and accurately disclose the precise nature and details of

the transactions contemplated by this Agreement, including such accounting information as is necessary to support the reasonableness of the charges and expenses to the Client. Charges and expenses shall be allocated fairly and equitably in conformity with customary insurance accounting practices consistently applied. The Records of the Client, and any data associated with such Records, will be maintained in Connecticut and made available to the Connecticut Commissioner of Insurance, or the Commissioner's designees.

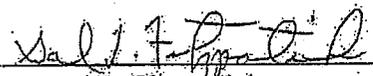
4. Notwithstanding any other provision in this Agreement, it is understood that the business and affairs of the Client shall be managed by its Board of Directors and, to the extent delegated by such board, by its appropriately designated officers. The Board of Directors and officers of Unitrin Services shall not have any management prerogatives with respect to the affairs and operations of the Client.
5. If any part of this Agreement is contrary to, prohibited by, or deemed invalid under applicable law or regulations, that provision shall not apply and shall be omitted to the extent so contrary, prohibited or invalid, but the remainder of this Agreement shall not be invalidated and shall be given full force and effect insofar as possible.
6. This Agreement shall be construed, interpreted and enforced in accordance with the laws of the State of Connecticut, excluding any choice of law rules that may direct the application of the laws of another jurisdiction.

IN WITNESS WHEREOF, the parties have caused this Computer Services Agreement to be executed by their duly authorized representatives.

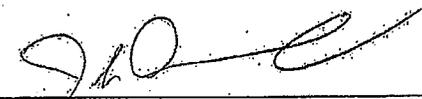
**UNITRIN SERVICES COMPANY**

By:   
Richard Roeske  
Vice President

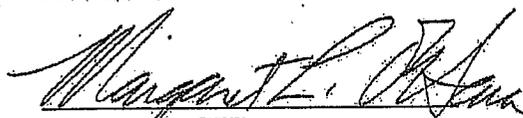
ATTEST:

  
Samuel L. Fitzpatrick  
Assistant Secretary

**NATIONAL MERIT  
INSURANCE COMPANY**

By:   
John Ammendola  
President

ATTEST:

  
Margaret L. O'Hara  
Secretary

## INFORMATION TECHNOLOGY SERVICES AGREEMENT

This Agreement is made and entered into as of January 1, 2010 between UNITRIN DIRECT PROPERTY & CASUALTY COMPANY, an Illinois Company (UDPC) and NATIONAL MERIT INSURANCE COMPANY, a Washington company (Company).

WHEREAS, UDPC and Company are affiliates and are subsidiaries of their ultimate parent company, Unitrin, Inc., and

WHEREAS, Company desires to contract for certain information technology (IT) services provided by UDPC's Florida employees and UDPC desires to provide such services to Company;

NOW, THEREFORE, in consideration of the premises and promises contained herein, UDPC and Company agree as follows:

1. UDPC will provide IT applications and consulting services on technology that is shared among Unitrin, Inc. property and casualty affiliates that operate in one or more distinct Unitrin property and casualty insurance segments, including, Kemper, A Unitrin Business, Unitrin Specialty Lines Insurance, and Unitrin Direct Insurance. Categories of service include larger grain technology or monolithic systems such as claims, policy administration or billing and smaller utilities or software products that are uniform across two or more property and casualty insurance business units. Services may also include evaluation and purchase of third party vendor services, negotiation of such services, and assistance and program management thereof. Staff augmentation, architectural assistance, quality assurance processes and tools, testing assistance, infrastructure implementations and support and educational programs are other examples of possible services that could be accessed by the various companies. UDPC services shall be performed by its Florida employees.
2. Company agrees to pay UDPC its share of the direct and indirect expenses UDPC incurs in providing the IT services described in paragraph 1 above. Expenses incurred by UDPC in providing services to Company shall be allocated on a fair and reasonable basis consistent with the provisions of Illinois Insurance Regulations Section 903.310 et seq. and Washington insurance laws and regulations. The compensation is limited to actual cost without a profit factor built into cost.

In providing such services, UDPC shall record all expenses it incurs for the benefit of its affiliates based on generally accepted accounting principles and shall share such expenses with such affiliates consistent with SSAP No. 70. Shared or indirect expenses shall be apportioned to Company based on cost studies and usage metrics of services provided. In recording such expenses, no element of profit or markup shall be added thereto. Direct expenses shall be charged on an actually incurred basis.

3. Invoices for services provided and expenses incurred hereunder shall be calculated no later than 30 days after the close of each quarter and forwarded to Company and Merastar Insurance Company, or such other company as designated by Company for purposes of accounting and record keeping. The invoice shall state the services provided and the charges attributable thereto, as well as the amount and description of any direct expenses

incurred. Payments for services and expenses hereunder shall be made by Company or its designee within 45 days after the close of the quarter. Interest at the rate of 10% per annum shall be paid by Company if Company fails to pay UDPC for services incurred within 10 business days after receipt of notice from UDPC that such payment is overdue.

4. Company shall maintain ownership and have custody of all Company accounts and records. UDPC shall make such records available to Company or its representatives or any duly appointed examiner of any state within the United States for the term of this Agreement and for such period thereafter as is necessary to fully discharge UDPC's obligations under this Agreement. Each party shall have the right at any reasonable time to inspect, through its duly authorized representatives, and make copies of all books, records and papers pertaining to any matter under this Agreement.
5. This Agreement shall not be assigned.
6. Notwithstanding any other provisions of this Agreement, it is understood that the business and affairs of the Company shall be managed by its Board of Directors and, to the extent delegated by such board, by its appropriately designated officers. Company shall have ultimate control and responsibility of the services delegated hereunder to UDPC.
7. UDPC shall indemnify and hold Company harmless against all damages, judgments, settlements, costs and expenses that arise out of or result from UDPC's negligence or intentional misconduct in providing any of the services contemplated by this Agreement.
8. The term of this Agreement shall commence on the Effective Date and shall continue in full force and effect unless terminated (i) on a date determined by Company and communicated to UDPC, in the event that UDPC does not perform satisfactorily, or (ii) by either Company or UDPC upon not less than ninety (90) days prior written notice to the other. The parties further agree that this Agreement shall be reviewed and renegotiated in its entirety by the parties hereto from time to time, but no less frequently than once every three (3) years.

9. ARBITRATION

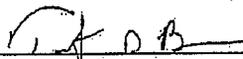
- A. Any dispute arising out of this Agreement shall be submitted to the decision of a board of arbitration composed of two arbitrators and an umpire, meeting in Jacksonville, FL, unless otherwise agreed. The laws of the State of Illinois shall govern the interpretation and application of this Agreement and the enforcement of the arbitration award.
- B. The members of the board of arbitration shall be active or retired disinterested officials of property/casualty insurance or reinsurance companies, other than the parties or their affiliates. Each party shall appoint its arbitrator, and the two arbitrators shall choose an umpire before instituting the hearing. If the respondent fails to appoint its arbitrator within twenty (20) days after being requested to do so by the claimant, the latter shall also appoint the second arbitrator within ten (10) days after the expiration of the twenty (20) days for respondent to appoint its arbitrator. If the two arbitrators fail to agree upon the appointment of an umpire at the end of

twenty (20) days following the last date of the appointment of the arbitrators, each of them shall name three candidates within ten (10) days, of whom the other shall decline two within ten (10) days after the three are named and the decision shall be made of the remaining two by drawing lots within five (5) days after the last declination of a candidate.

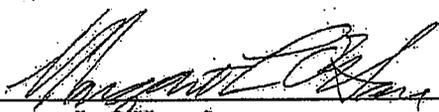
- C. The claimant shall submit its initial statement within twenty (20) days from appointment of the umpire. The respondent shall submit its statement within twenty (20) days after receipt of the claimant's statement, and the claimant may submit a reply statement within ten (10) days after receipt of the respondent's statement. No other statement shall be submitted by either party.
- D. The board shall consider this Agreement an honorable engagement rather than merely a legal obligation and shall make its decision with regard to the custom and usage of the insurance and reinsurance business. The board shall have injunctive powers, including, but not limited to, the power to cause a party to deposit any monies in dispute into an interest-bearing escrow account. The board shall issue its decision in writing upon evidence introduced at a hearing or by other means of submitting evidence in which strict rules of evidence need not be followed, but in which cross examination and rebuttal shall be allowed if requested. Any hearing shall commence within thirty (30) days of claimant's reply statement, or of respondent's statement if claimant does not submit a reply statement. The board shall make its decision within forty-five (45) days following the termination of the hearing unless the parties consent to an extension. The majority decision of the board shall be final and binding upon all parties to the proceeding. As soon as practical after the board renders an award, judgment shall be entered upon the award of the board in any court having jurisdiction thereof. Post-award interest shall accrue on any award from the time the board renders the award until the award is paid in full. The amount of post-award interest shall be the amount specified under Illinois law. The board shall have the authority to award pre-award interest, attorneys' fees and any interim relief the board may deem appropriate.
- E. Each party shall bear the expense of its own arbitrator and shall jointly and equally bear with the other party the expense of the umpire. The remaining costs of the arbitration proceedings shall be allocated by the board.
- F. In the event of subsequent actions or proceedings to enforce any rights hereunder, the prevailing party shall be entitled to recover its reasonable attorneys' fees.

IN WITNESS WHEREOF, UDPC and Company have caused this Agreement to be executed and attested as of January 25, 2010.

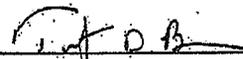
UNITRIN DIRECT PROPERTY & CASUALTY COMPANY

  
\_\_\_\_\_  
Timothy D. Bruns, Executive Vice President

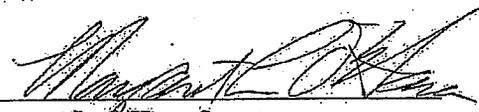
Attest:

  
\_\_\_\_\_  
Margaret L. O'Hara, Secretary

NATIONAL MERIT INSURANCE COMPANY

  
\_\_\_\_\_  
Timothy D. Bruns, President

Attest:

  
\_\_\_\_\_  
Margaret L. O'Hara, Secretary

## GENERAL SERVICES AGREEMENT

This Agreement is entered into by and between Merastar Insurance Company, hereinafter referred to as MERASTAR, and NATIONAL MERIT INSURANCE COMPANY, hereinafter referred to as COMPANY. In consideration of the promises, conditions and covenants herein contained, the parties agree as follows:

### SECTION I

#### FILING WITH THE INDIANA AND WASHINGTON DEPARTMENTS OF INSURANCE

This Agreement shall be submitted to the Indiana Department of Insurance and the Washington Department of Insurance prior to the effective date hereof pursuant to the requirements of the Indiana and Washington Insurance Codes.

### SECTION II

#### EFFECTIVE DATE

This Agreement shall become effective on January 1, 2010 (the "Effective Date").

### SECTION III

#### SERVICES AND FACILITIES

A. Commencing on the Effective Date and until the termination of this Agreement, MERASTAR shall administer the new and renewal property and casualty lines insurance business of COMPANY (the "Policies"), as well as provide certain services and facilities as are described herein. The services provided by MERASTAR shall be subject to the control and approval of the Board of Directors of COMPANY and shall be performed in the manner set forth herein in accordance with applicable laws and regulations of the state in which such Policies are written. The Board of Directors of COMPANY shall retain responsibility for the performance of services provided pursuant to this Agreement by MERASTAR and, in connection therewith, shall require MERASTAR to perform in accordance with the standards set forth herein.

B. MERASTAR shall administer the Policies in accordance with the following provisions:

1. Marketing. MERASTAR shall have the authority to develop marketing plans and advertising material and administer the operation of COMPANY marketing programs for the Policies. MERASTAR shall provide policy owner servicing for COMPANY Policies on behalf of MERASTAR.

2. Underwriting Authority. Subject to the limitations and conditions herein, MERASTAR shall have authority to issue, renew, amend by endorsement and cancel Policies and reinsurance consistent with written guidelines adopted by COMPANY; to accept and decline risks with full underwriting authority; to appoint COMPANY agents; to reject, adjust, compromise and pay losses; cancel Policies for nonpayment of premiums; to pay return premiums; to pay for surveys; to pay all taxes and fees imposed by authorities; and generally to do everything necessary for the administration of the Policies conducted pursuant to this Agreement.

3. Losses, Claim Expenses, Attorney Appointments, Loss Reporting and Reinsurance.

a. MERASTAR shall on behalf of COMPANY supervise the adjustment of, settle and compromise and pay all claims for losses under the Policies, and shall pay all survey, investigating, legal and other costs thereof, provided that COMPANY shall have the ultimate and final authority as to payment or nonpayment of claims. MERASTAR shall have the authority to pay in the name of COMPANY losses and claims expenses out of funds held by, on behalf of, or in the name of COMPANY or received from Third Party Reinsurers, as applicable. MERASTAR shall have no access to, or power to draw on, any other account of COMPANY. Any such account set up by COMPANY shall be in an institution that is a member of the Federal Reserve System. COMPANY shall have full access to the claim files maintained by MERASTAR for COMPANY and other relevant claims records.

b. MERASTAR shall on behalf of COMPANY appoint claims, defense and loss control attorneys for the Policies.

c. MERASTAR shall on behalf of COMPANY provide special investigation unit services, either by MERASTAR personnel, or by a third party retained by MERASTAR.

d. MERASTAR shall report all losses to COMPANY and any applicable Third Party Reinsurers.

e. Subject to the retention by COMPANY of the ultimate and final authority to determine from whom it will cede or assume reinsurance, MERASTAR shall have authority to negotiate reinsurance agreements with reputable reinsurers ceding all or part of the liability under Policies written for COMPANY hereunder; to collect commissions due to COMPANY for reinsurance ceded in connection with Policies written hereunder; to recover from reinsurers return premiums, losses and expenses.

4. Facilities, Supplies and Staffing. Except to the extent the following is provided under some other service arrangement, MERASTAR shall provide the following facilities and support to COMPANY with respect to the Policies:

a. Provide all personnel reasonably required by COMPANY to attend to the Policies and fill all such positions in COMPANY with the advice and consent of the Board of Directors of COMPANY, if required, all of which personnel shall be compensated exclusively by MERASTAR.

b. Provide all facilities necessary for the conduct of the Policies, including but not limited to real estate, office space and personal property, including furniture, fixtures and equipment. The office space, furniture, fixtures and equipment utilized by MERASTAR while performing services for COMPANY may be owned or leased by COMPANY, MERASTAR or one of their affiliates.

c. Furnish for COMPANY all of the operating forms, printing supplies, agents' manuals and any other related items which may become necessary for the operation of the Policies.

5. Payment of Expenses. Expenses incurred by MERASTAR in the administration of the Policies shall be allocated on a fair and reasonable basis consistent with the provisions of Indiana and Washington Insurance Laws and Regulations. The compensation is limited to actual cost without a profit factor built into cost. Shared or indirect expenses shall be apportioned to COMPANY based on cost studies and usage metrics of services provided. Direct expenses shall be charged on an actually incurred basis. All allocations shall be in accordance with SSAP No. 70.

6. Accounting and Reporting. MERASTAR agrees to provide the following accounting and reporting services to COMPANY:

a. Credit to COMPANY amounts due within 30 days after the close of the quarter in which the Policies were written or accounted for.

b. Provide all data processing and accounting services as necessary to service the Policies.

c. Issue statements to COMPANY as follows:

(i) No later than 30 days after the close of each calendar quarter a statement of accounts shall be given to COMPANY in such form and in such detail as may be required by COMPANY, and the balance due as shown in such statement shall be remitted not later than 30 days after the close of the quarter. Accounts shall be rendered and all payments made in

United States currency. Interest at the rate of 10 % per annum shall be paid by Company if Company fails to pay MERASTAR for services incurred within 10 business days after receipt of notice from MERASTAR that such payment is overdue.

(ii) MERASTAR shall also furnish to COMPANY as soon as practicable after the end of each calendar quarter, statements reflecting all necessary figures for any statement, annual report or otherwise, required by state insurance departments or other authorities.

d. Keep all necessary records to account for transactions, which records shall be open for inspection at all times by COMPANY.

e. MERASTAR will permit COMPANY and any authorized representative of any governmental authority having jurisdiction to examine its books and records, and when required by COMPANY or any governmental authority, MERASTAR will furnish audits, and other records or reports which may be required, pertaining to the business conducted by MERASTAR hereunder.

f. In all respects see that the operations hereunder conducted by MERASTAR are in compliance with applicable laws and regulations.

C. This Agreement is not intended to supersede or replace the policy making decisions of or the supervisory responsibilities of the Board of Directors of COMPANY, nor is it intended that substantial control of COMPANY or of any of the powers vested in the Board of Directors thereof are to be transferred to MERASTAR as a result of this Agreement. Said Board of Directors, a committee thereof or agents appointed by said Board of Directors, shall have the right, at all times, to cause the books and records of MERASTAR to be inspected and/or audited as they relate to the Policies of COMPANY. COMPANY shall retain full custody and ownership of its general corporate accounts and records.

#### SECTION IV

##### OWNERSHIP OF RECORDS

All records pertaining to the Policies of COMPANY administered under this Agreement belong to COMPANY. However, MERASTAR shall have joint custody of such records and they shall be made available to COMPANY or its representatives or any duly appointed examiner for any state within the United States for the term of this Agreement and for such period thereafter as is necessary to fully discharge MERASTAR's obligations under this Agreement. Each party shall have the right at any reasonable time to inspect, through its duly authorized representatives, and make copies of all books, records, and papers pertaining to any matter under this Agreement.

## SECTION V

### TERM OF AGREEMENT

A. The term of this Agreement shall commence on the Effective Date and shall continue in full force and effect unless terminated (i) on a date determined by COMPANY and communicated to MERASTAR, in the event that MERASTAR does not perform satisfactorily, or (ii) by either COMPANY or MERASTAR upon not less than ninety (90) days prior written notice to the other. The parties further agree that this Agreement shall be reviewed and renegotiated in its entirety by the parties hereto from time to time, but no less frequently than once every three (3) years.

B. This Agreement shall not be assigned.

## SECTION VI

### INDEMNIFICATION

MERASTAR shall indemnify and hold COMPANY harmless against all damages, judgments, settlements, costs and expenses that arise out of or result from MERASTAR's negligence or intentional misconduct in providing any of the services contemplated by this Agreement.

## SECTION VII

### ARBITRATION

A. Any dispute arising out of this Agreement shall be submitted to the decision of a board of arbitration composed of two arbitrators and an umpire, meeting in Jacksonville, Florida, unless otherwise agreed. The laws of the State of Indiana shall govern the interpretation and application of this Agreement and the enforcement of the arbitration award.

B. The members of the board of arbitration shall be active or retired disinterested officials of property/casualty insurance or reinsurance companies, other than the parties or their affiliates. Each party shall appoint its arbitrator, and the two arbitrators shall choose an umpire before instituting the hearing. If the respondent fails to appoint its arbitrator within twenty (20) days after being requested to do so by the claimant, the latter shall also appoint the second arbitrator within ten (10) days after the expiration of the twenty (20) days for respondent to appoint its arbitrator. If the two arbitrators fail to agree upon the appointment of an umpire at the end of twenty (20) days following the last date of the appointment of the arbitrators, each of them shall name three candidates within ten (10) days, of whom the other shall decline two within ten (10) days after the three are named and the decision shall be made of the remaining two by drawing lots within five (5) days after the last declination of a candidate.

C. The claimant shall submit its initial statement within twenty (20) days from appointment of the umpire. The respondent shall submit its statement within twenty (20) days after receipt of the claimant's statement, and the claimant may submit a reply statement within ten (10) days after receipt of the respondent's statement. No other statement shall be submitted by either party.

D. The board shall consider this Agreement an honorable engagement rather than merely a legal obligation and shall make its decision with regard to the custom and usage of the insurance and reinsurance business. The board shall have injunctive powers, including, but not limited, to the power to cause a party to deposit any monies in dispute into an interest-bearing escrow account. The board shall issue its decision in writing upon evidence introduced at a hearing or by other means of submitting evidence in which strict rules of evidence need not be followed, but in which cross examination and rebuttal shall be allowed if requested. Any hearing shall commence within thirty (30) days of claimant's reply statement, or of respondent's statement if claimant does not submit a reply statement. The board shall make its decision within forty-five (45) days following the termination of the hearing unless the parties consent to an extension. The majority decision of the board shall be final and binding upon all parties to the proceeding. As soon as practical after the board renders an award, judgment shall be entered upon the award of the board in any court having jurisdiction thereof. Post-award interest shall accrue on any award from the time the board renders the award until the award is paid in full. The amount of post-award interest shall be the amount specified under Indiana law. The board shall have the authority to award pre-award interest, attorneys' fees and any interim relief the board may deem appropriate.

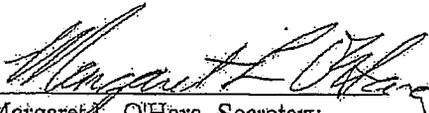
E. Each party shall bear the expense of its own arbitrator and shall jointly and equally bear with the other party the expense of the umpire. The remaining costs of the arbitration proceedings shall be allocated by the board.

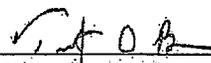
F. In the event of subsequent actions or proceedings to enforce any rights hereunder, the prevailing party shall be entitled to recover its reasonable attorneys' fees

IN WITNESS WHEREOF, we have set our hands and seals effective this 11<sup>th</sup> day of January, 2010.

MERASTAR INSURANCE COMPANY

Attest:

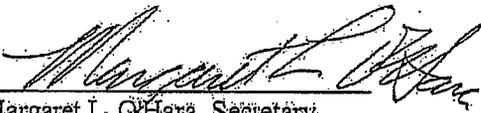
  
Margaret L. O'Hara, Secretary

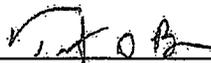
BY:   
Timothy D. Bruns, President

IN WITNESS WHEREOF, we have set our hands and seals effective this 11<sup>th</sup> day of January, 2010:

NATIONAL MERIT INSURANCE COMPANY

Attest:

  
Margaret L. O'Hara, Secretary

BY:   
Timothy D. Bruns, President

## 100% QUOTA SHARE REINSURANCE AGREEMENT

This 100% Quota Share Reinsurance Agreement (the "Agreement") is made and entered into by and between NATIONAL MERIT INSURANCE COMPANY, a Washington insurance company ("Company"), and TRINITY UNIVERSAL INSURANCE COMPANY, a Texas insurance company ("TRINITY").

WHEREAS, the Company and TRINITY wish to enter into this Agreement in a manner that would allow the Company to enjoy the Unitrin, Inc. Property and Casualty Group rating assigned by A.M. Best;

WHEREAS, the Company previously entered into a Reinsurance Pooling Agreement with certain of its affiliates, dated August 2, 2004, as amended (the "Pooling Agreement") pursuant to which the parties to such Pooling Agreement (the "DRC Insurers") reinsure their pooled business in the percentages set forth in the Agreement; and

WHEREAS, the pool participants have agreed to terminate the pool and commute all reinsurance effected pursuant to the Pooling Agreement (the "Commutation Transaction").

NOW THEREFORE, for and in consideration of the foregoing premises and the mutual covenants and agreements hereinafter set forth, it is agreed by TRINITY and the Company as follows:

### ARTICLE I

#### BUSINESS REINSURED

A. The Company hereby cedes, and TRINITY hereby assumes, a 100% quota share participation in the Ultimate Net Loss (as hereinafter defined) of the Company in respect of (i) all losses incurred prior to the Effective Date under policies, binders, contracts, certificates, agreements or renewals of insurance and reinsurance issued or entered into by the Company (the Company's coverage of such losses sometimes hereinafter referred to as the "Existing Business"), and (ii) all losses incurred on or after the Effective Date under policies, binders, contracts, certificates, agreements or renewals of insurance and reinsurance issued or entered into by the Company (the Company's coverage of such losses sometimes hereinafter referred to as the "New Business") (it being understood and agreed that in the event that this Agreement is effective prior to the effective date of the Commutation Transaction, the Company shall cede hereunder the business written by it through the Pooling Agreement until such time as the Commutation Transaction is effective at which time it shall cede hereunder the business it recaptures through the Commutation Transaction and any new business issued by the Company thereafter). Reinsured policies and contracts, whether part of the Existing Business, the New Business or both, are hereinafter referred to collectively as the "Policies."

B. "Ultimate Net Loss" shall be that portion of the Company's gross liability on the Policies paid or to be paid after the Effective Date in settlement of losses for which the Company is liable in accordance with Section I.C. below after making deductions for all recoveries for

Business, subject to adjustment of unearned premium reserves for cancellations occurring subsequent to the Effective Date, less a holdback equal to the uncollected recoveries from Third Party Reinsurance (as hereinafter defined) and uncollected premium receivables on the Existing Business (the "Existing Business Holdback") and (ii) with respect to New Business, the full net premiums on the Policies written on or after the Effective Date ("net premiums" being defined as gross premiums, installment fees and policy fees charged minus return premiums on cancellations or other returns. TRINITY shall be entitled to all subrogation, salvage and other recoveries and all premiums collected on the Policies hereunder, including the Existing Business Holdback, whenever realized.

B. Notwithstanding the foregoing, the Company shall have no obligation to TRINITY for uncollected or uncollectible premium, whether uncollected from the original policyholder or any other party. If the Company is bound on any Policy for which all or any premium is uncollected, TRINITY shall be liable to the Company for losses, if any, arising thereunder in accordance with all other terms of this Agreement.

C. TRINITY is authorized to collect premiums directly from policyholders of the Company and to deposit such premium funds in one or more of TRINITY'S depository bank accounts. All such premium funds shall be held by TRINITY in a fiduciary capacity. The Company and TRINITY agree to maintain accounting and operational records and books in adequate detail so as to identify the specific insurance policies and policyholders of the Company with respect to which such funds are deposited in a TRINITY bank account. TRINITY shall remit the Company's proportionate share of such premium deposits in accordance with Paragraph A of Article V of this Agreement.

#### ARTICLE IV

##### PREMIUM TAXES, ASSESSMENTS AND OTHER REINSURANCE

A. TRINITY shall reimburse the Company for its proportionate share of (1) all premium taxes on the Policies and on policy fees, if any; and (2) fees and assessments levied against the Company by any state insurance guaranty or insolvency pool, guaranty fund, assigned risk plan, board or bureau, joint underwriting association, FAIR plan and similar plans.

B. The Company shall return to TRINITY any amount of premium taxes or other fees and assessments refunded to or credited to the Company for Policies reinsured under this Agreement.

C. TRINITY shall be entitled to all proceeds from all reinsurance, other than this Agreement, inuring to the benefit of the Company ("Third Party Reinsurance") when and if received by the Company.

D. Notwithstanding the foregoing, the Company shall have no obligation to TRINITY for any uncollected or uncollectible reinsurance recovery from Third Party Reinsurance.

## ARTICLE VIII

### DEFENSE AND INDEMNIFICATION

TRINITY shall assume the defense of the Company in any actions arising out of producing, underwriting, servicing or performing any other function concerning the Policies, in any actions arising out of defending, adjusting, settling or paying claims arising under the Policies and in any other civil or governmental actions against the Company in respect of the Policies. TRINITY shall keep the Company fully informed of the progress of all litigation handled by TRINITY in which the Company is a named party. The Company shall have the right but not the duty to associate, at its sole expense, in the defense of any action in which it is a named party. TRINITY shall indemnify the Company against, and hold it harmless from, all costs, expenses, and attorneys fees incurred in connection with such defense or in connection in any way with the Policies, including, but not limited to, any disputes with brokers and agents, and all damages, settlements, judgments, awards, fines or penalties of any kind whatsoever agreed to or assessed against the Company in connection therewith, including, without limitation, punitive or exemplary damages or other "extra-contractual" losses or any damages, settlements, judgments, awards, fines or penalties of any kind whatsoever, except to the extent such action, damage, settlement, judgment, award, fine or penalty is a result of any negligent or fraudulent and/or criminal act by an employee, officer or director of the Company acting on behalf of the Company individually or collectively or in collusion with any individual or corporation or any other organization or party.

## ARTICLE IX

### COOPERATION

The Company agrees to cooperate fully with TRINITY with respect to claims or other disputes arising out of or in connection with the Policies, including, but not limited to, making its employees and agents, if still associated with the Company, available to testify in court or elsewhere, and providing relevant information to regulatory authorities.

## ARTICLE X

### OFFSET CLAUSE

Each party hereto shall have, and may exercise at any time and from time to time, the right to offset any balance or balances, whether on account of premiums or on account of losses or otherwise, due from such party to the other party hereto under this Agreement or under any other reinsurance agreement heretofore or hereafter entered into by and between them, and may offset the same against any balance or balances due to the former from the latter under the same or any other reinsurance agreement between them; and the party asserting the right of offset shall have and may exercise such right whether the balance or balances due or to become due to such party from the other are on account of premiums or on account of losses or otherwise and regardless of the capacity, whether as assuming insurer or as ceding insurer, in which each party acted under the agreement or, if more than one, the different agreements involved, provided,

invalidate this Agreement and shall not relieve either party from any liability under this Agreement which would have attached had such delay, error, or omission not occurred, provided always that such error or omission be rectified as soon as possible after discovery.

#### ARTICLE XIV

##### ARBITRATION

A. Any dispute arising out of this Agreement shall be submitted to the decision of a board of arbitration composed of two arbitrators and an umpire, meeting in Dallas, Texas, unless otherwise agreed. The laws of the State of Washington shall govern the interpretation and application of this Agreement and the enforcement of the arbitration award.

B. The members of the board of arbitration shall be active or retired disinterested officials of insurance or reinsurance companies, other than the parties or their affiliates. Each party shall appoint its arbitrator, and the two arbitrators shall choose an umpire before instituting the hearing. If the respondent fails to appoint its arbitrator within twenty (20) days after being requested to do so by the claimant, the latter shall also appoint the second arbitrator within ten (10) days after the expiration of the twenty (20) days for respondent to appoint its arbitrator. If the two arbitrators fail to agree upon the appointment of an umpire at the end of twenty (20) days following the last date of the appointment of the arbitrators, each of them shall name three candidates within ten (10) days, of whom the other shall decline two within ten (10) days after the three are named and the decision shall be made of the remaining two by drawing lots within five (5) days after the last declination of a candidate.

C. The claimant shall submit its initial statement within twenty (20) days from appointment of the umpire. The respondent shall submit its statement within twenty (20) days after receipt of the claimant's statement, and the claimant may submit a reply statement within ten (10) days after receipt of the respondent's statement. No other statement shall be submitted by either party.

D. The board shall consider this Agreement an honorable engagement rather than merely a legal obligation and shall make its decision with regard to the custom and usage of the insurance and reinsurance business. The board shall have injunctive powers, including but not limited to the power to cause a party to deposit any monies in dispute into an interest-bearing escrow account. The board shall issue its decision in writing upon evidence introduced at a hearing or by other means of submitting evidence in which strict rules of evidence need not be followed, but in which cross examination and rebuttal shall be allowed if requested. Any hearing shall commence within thirty (30) days of claimant's reply statement, or of respondent's statement if claimant does not submit a reply statement. The board shall make its decision within forty-five (45) days following the termination of the hearing unless the parties consent to an extension. The majority decision of the board shall be final and binding upon all parties to the proceeding. As soon as practical after the board renders an award, judgment shall be entered upon the award of the board in any court having jurisdiction thereof. Post-award interest shall accrue on any award from the time the board renders the award until the award is paid in full. The amount of post-award interest shall be the amount specified under Washington law. The

## ARTICLE XVI

### MISCELLANEOUS

A. This Agreement and any exhibits, schedules and appendices attached hereto together constitute the entire agreement between the parties with respect to the business reinsured hereunder, and there are no understandings between the parties other than as expressed in this Agreement. Any changes or modifications to this Agreement shall be null and void unless made by amendment to the Agreement signed by both parties. Any such amendment shall not become effective unless and until any required insurance regulatory approvals have been obtained.

B. This Agreement shall be construed and interpreted according to the internal laws of the State of Washington, excluding any choice of law rules that may direct the application of the laws of another jurisdiction.

C. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

D. This Agreement shall inure to the benefit of the parties and be binding upon their successors and assigns.

E. All exhibits, schedules and appendices are incorporated by reference into this Agreement as if they were set forth at length in the text of this Agreement.

F. The headings in this Agreement are inserted for convenience only and shall not constitute a part hereof.

G. If any part of this Agreement is contrary to, prohibited by, or deemed invalid under applicable law or regulations, that provision shall not apply and shall be omitted to the extent so contrary, prohibited or invalid; but the remainder of this Agreement shall not be invalidated and shall be given full force and effect insofar as possible.

## SCHEDULE V.A.

### Service Schedule

TRINITY shall administer the business of the Company ceded to TRINITY in accordance with this Schedule and subject to the general supervision of the Company's Board of Directors.

A. Marketing. TRINITY shall have the authority to appoint and terminate producers on behalf of the Company for the production of new Policies, to develop marketing plans and advertising material, to negotiate commission levels and other terms and conditions of producer contracts and administer the operation of the Company's marketing programs. TRINITY shall provide policy owner servicing for Policies on behalf of the Company.

B. Underwriting Authority. Subject to the limitations and conditions herein, TRINITY shall have authority to issue, amend by endorsement and cancel contracts of insurance and reinsurance; to accept and decline risks with full underwriting authority; to collect premiums; to reject, adjust, compromise and pay losses; to negotiate, subject to the Company's acceptance, reinsurance agreements with reputable reinsurers ceding all or part of the liability under policies written for the Company hereunder; to collect commissions due to the Company for reinsurance ceded in connection with policies written hereunder; to recover from reinsurers return premiums, losses and expenses; to pay return premiums and reinsurance premiums; to pay for surveys; to pay all taxes and fees imposed by authorities; and generally to do everything necessary for the administration of the insurance business conducted pursuant to the Agreement.

C. Losses, Claim Expenses, Attorney Appointments and Loss Reporting.

1. TRINITY shall on behalf of the Company and in satisfaction of TRINITY's obligations as reinsurer receive, supervise the adjustment of, settle and compromise and pay all claims for losses under the Policies, and shall pay all survey, investigating, legal and other costs thereof. TRINITY shall administer any Third Party Reinsurance agreements maintained by the Company and timely submit reinsurance claims for reimbursement. TRINITY shall pay in the name of the Company losses and claims expenses out of funds held by TRINITY or received from Third Party Reinsurers. The Company shall have full access to TRINITY's claim files and other claims records.
2. TRINITY shall on behalf of the Company (and at TRINITY's expense) appoint claims, defense and loss control attorneys.
3. TRINITY shall report all losses to the Company and any third party reinsurers.

E. Payment of Expenses. TRINITY shall bear and pay all charges and expenses incurred in connection with this Agreement, including but not limited to: compensation of TRINITY's employees; costs, including printing of policies and policy forms; all brokerages, commissions or discounts allowable to other brokers or agents producing business which is written hereunder; assessments, fees or other charges in connection with the Company's or TRINITY's membership or subscribership in any bureau or association; fees and other costs of compliance with laws and regulations, both in respect to TRINITY's corporate existence and the insurance business written hereunder.

F. Assignment of Administrative Services. Subject to any required insurance regulatory approvals, TRINITY may assign some or all of its responsibility and obligations to provide administrative services pursuant to Article V of this Agreement and this Service Schedule to any one or more of its affiliates who agree to be bound by the terms hereof without the consent of the Company, provided that TRINITY shall notify the Company of such assignment thirty (30) days prior to the commencement of such assigned services, and further provided that TRINITY shall reimburse such affiliate or affiliates, as the case may be, for the costs in providing such services.