

**PLAN OF OPERATION
AND
ARTICLES OF AGREEMENT
OF
ALABAMA INSURANCE
UNDERWRITING ASSOCIATION**

EFFECTIVE *11-01-2008*

PLAN OF OPERATION

The Alabama Insurance Underwriting Association has been established to provide a method whereby Essential Property Insurance and Windstorm & Hail Coverage may be provided in the Gulf Front, Beach and Seacoast Areas of Alabama. This Plan of Operation as amended shall become effective November 01, 2008.

Section I – Purposes of the Association

The purposes of the Association are:

1. To provide an equitable plan to assure a market for Essential Property Insurance in the Gulf Front Beach and Seacoast Areas of Alabama.
2. To provide Wind and Hail Coverage in the Gulf Front, Beach and Seacoast Areas of Alabama.
3. To provide Essential Property Insurance and Wind & Hail Coverage in the Gulf Front, Beach and Seacoast Areas of Alabama to enable owners of Insurable Property to obtain financing for the purchase and improvement of their property.

Section II – Definitions of Terms

1. “Association” means the Alabama Insurance Underwriting Association.
2. “Beach Area” means all of the area, except areas designated as Gulf Front, so designated by the Insurance Services Office, Inc., and approved by the Commissioner.

3. "Board" means the Board of Directors elected in accordance with the terms of Section XI hereof.
4. "Commissioner" means the Commissioner of Insurance of the State of Alabama.
5. "Essential Property Insurance" means insurance against direct loss to Insurable Property and limited in the standard fire policy (ISO DP 00 01 Basic Form OR DP 00 02 Broad Form), as approved by the Commissioner. "Essential Property Insurance" does not include any policy excluding Wind and/or Hail Coverages.
6. "Gulf Front" means all of the area so designated by the Alabama Insurance Underwriting Association, and approved by the Commissioner.
7. "Insolvency" means written notice, directed to the Association, has been received from the Commissioner that a Member is insolvent or in receivership.
8. "Inspection Office" means the Association and any other organization designated by the association to make underwriting inspections and perform other duties authorized by the Association.
9. "Insurable Property" means real property, including mobile and manufactured homes, at fixed locations in the Beach and Seacoast Areas, and tangible personal property thereon, determined by the Association, after inspection and pursuant to the Association's underwriting standards,

to be in an insurable condition. "Insurable Property" shall not include any property deemed ineligible.

10. "Member" means an insurer licensed to transact property insurance on a direct basis in Alabama and includes all insurers who were Members of the Association as of the original effective date of this Plan of Operation and all insurers who thereafter have become licensed.
11. "Net Direct Premiums" means gross direct premiums (excluding reinsurance assumed and ceded) received for Fire, Extended Coverage, and Vandalism/Malicious Mischief insurance (including those components of Homeowners, Mobile and Manufactured Homeowners, and Commercial Multiple Peril Package Policies), as computed by the Commissioner, excluding premiums for policies that do not include coverage for the peril of wind, return premiums upon canceled contracts, dividends paid or credited to policyholders on the unused or unabsorbed portion of premium deposits, and premiums on ineligible properties. The formula for establishing "Net Direct Premiums" is described in the "Rules and Procedures for Reporting Voluntary Writings".
12. "Net Participation" means the extent to which a Member shall participate in the Association's writings, expenses, profits, and losses, as determined by the proportion that the Net Direct Premiums of a Member written in the State during the preceding calendar year bears to the aggregate Net

Direct Premiums written in the State by all Members of the Association in the preceding calendar year, factored as prescribed by the Board.

13. "Plan of Operation" means the written Plan of Operation, as amended, promulgated by the Association and approved by the Commissioner.
14. "Producer" means a person or entity licensed by the Alabama Department of Insurance for the sale and servicing of property and casualty insurance policies and who has been authorized to transact business with the Association or who has requested such authorization.
15. "Seacoast Area" means all of the area so designated by the Insurance Services Office, Inc., and approved by the Commissioner.
16. "State" means the State of Alabama.
17. "Wind and Hail Coverage" means insurance against direct loss to property as defined and limited in the wind and hail insurance policy and forms approved by the Commissioner.
18. "Insured Location" means the insured building described on the declaration page of the policy and any other buildings or structures located within fifty (50) feet of the insured building.

Section III – Inspections and Reports

1. Any person having an insurable interest in Insurable Property in the Gulf Front, Beach or Seacoast Area of Alabama may apply to the Association for insurance coverage and for an underwriting inspection of the property. Such application shall be submitted on forms prescribed by the

Association and may be made on behalf of the applicant by a broker or agent authorized by the applicant.

2. The manner and scope of the underwriting inspection shall be prescribed by the Association with the approval of the Commissioner.
3. The underwriting inspector shall be provided full access to the building, but the presence of the building owner is not required for a tenant seeking insurance.
4. An underwriting report shall be made for each property inspected. The report shall cover pertinent structural and occupancy features as well as the general condition of the property. Photographs of the property may be taken during the inspection.
5. All such underwriting reports shall be available for review by Members, applicants, agents, brokers, and the commissioner upon reasonable request.

Section IV – Procedure After Inspection

1. The Association shall, within a reasonable time after receipt of the underwriting report and application, notify the agent or applicant that:
 - (a.) the risk is not accepted but will be acceptable if certain specified improvements noted in the underwriting report are made by the applicant and confirmed by further inspection; or
 - (b.) the risk is not acceptable for reasons stated in the underwriting report.

2. In the event an application is not accepted because the proposed risk fails to meet the Association's underwriting standards, the Association shall notify the applicant or his designated representative. The Association's underwriting standards shall include, without limitation, the following.
 - (a.) whether the amount of insurance applied for, combined with other insurance on the property, bears a reasonable relationship to the actual cash value of the property;
 - (b.) the physical condition of the property, such as its construction, heating, wiring, maintenance and general condition;
 - (c.) the condition of its present use, such as poor housekeeping, vacancy, overcrowding, storage of rubbish or flammable materials;
 - (d.) circumstances involving violation of law, public policy, morals, or the character and integrity of the property owner or occupant.
 - (e.) in situations where initial application or renewal is made for Wind and Hail Coverage only, the applicant shall provide proof of insurance, for the essential underlying fire and extended coverage in an amount no less than the Wind and Hail Coverage being sought: and
 - (f.) where initial or renewal application is made to the Association for insurance in special 100-year flood zones (any zone classification with an "A" or "V" in its designation) as designated by the National Flood Insurance Program of the Gulf Front, Beach or Seacoast

Areas of Alabama, the applicant shall provide proof of appropriate flood insurance in an amount no less than the AIUA policy limits or the maximum provided by the National Flood Insurance Program. However, flood insurance is not a prerequisite on contents located above the second level of any multi-level building, except in CBRA Zones.

- (g.) where initial or renewal application is made to the Association for insurance covering property located in areas designated by as protected by the Coastal Barrier Resources Act (CBRA Zones), the applicant shall provide proof of appropriate flood insurance in an amount no less than the AIUA policy limits or the maximum provided by the National Flood Insurance Program.
- 3. Any dwelling or structure or building constructed in substantial compliance with the Southern Standard Building Code, including the design-wind requirements, which is not otherwise rendered uninsurable by reason of condition or occupancy, shall be an Insurable Risk within the meaning of this Plan. Any structure commenced on or after January 1, 1971, not constructed in substantial compliance with the Southern Standard Building Code, including the design-wind requirements therein, shall not be an Insurable Risk.
- 4. In any case where a risk, not accepted because the property does not meet the Association's underwriting standards, can be improved to meet

such standards, the Association shall advise the applicant what improvements, noted in the underwriting report, must be made to the property to make the risk acceptable. Upon notice to the Association of completion of such improvements, the Association shall promptly arrange to have the property reinspected and if, after such reinspection, the property is found insurable, the Association shall issue a policy upon receipt of the premium.

5. If the inspection of the property reveals the existence of substandard conditions, charges shall be applied in conformity with rating plans approved by the Commissioner.
6. If a risk is declined, or if a determination is made that coverage will be issued only if specific improvements are made, notice of such action shall be furnished, along with a copy of the underwriting report, to the applicant. Such notice shall include information concerning the applicant's right to appeal and procedures.
7. Any insured in special 100-year flood zones (any zone classification with an "A" or "V" in its designation) as designated by the National Flood Insurance Program of the Gulf Front, Beach or Seacoast Areas must maintain flood insurance in an amount no less than the AIUA policy limits or the maximum provided by the National Flood Insurance program. However, flood insurance is not a prerequisite on contents located above the second level of any multi-level building, except in CBRA Zones.

8. Any insured located in areas designated by the Federal Government as protected by the Coastal Barrier Resources Act (CBRA Zones) shall provide proof of appropriate flood insurance in an amount no less than the AIUA policy limits or the maximum provided by the National Flood Insurance Program.

Section V – Placement of Insurance

1. Upon approval by the Association of an application for insurance and receipt by the Association of the full amount of the required premium by, check, electronic funds transfer, certified check, bank check, or money order, the Association shall issue a policy of insurance as provided in AIUA Rules for Submitting Applications. Policies will be issued in the usual and customary manner so the public will be assured of prompt coverage.
2. The Association shall, on behalf of its members, write insurance up to the reasonable insurable value of the property, subject to a maximum of \$500,000 Residential Dwelling on all interests on or in any one building or fire division and \$1,000,000 Commercial, on all interests on or in any one building or fire division, not to exceed \$3,000,000 at any one insured location.

Section VI – Standard Policy Coverage

1. All policies issued for Essential Property Insurance in the Gulf Front, Beach and Seacoast Areas shall be on standard policy forms for Fire, Extended Coverage, and Vandalism/Malicious Mischief and shall be issued for a term of one (1) year only.
2. All policies issued solely for Wind and Hail Coverage in the Gulf Front, Beach and Seacoast Areas shall be on standard policy forms for Windstorm and Hail Coverage and for a term of one (1) year only.
3. Any policy issued pursuant to the provisions of this Plan of Operation may be renewed annually, upon application therefor and payment of the full amount of the renewal premium, as long as the property satisfies the definition of Insurable Property and the Association's underwriting standards. No policy of the Association shall provide for automatic renewal.

Section VII – Cancellation or Rescission

1. All statements and descriptions in any application for an insurance policy, or in negotiations therefor, by or on behalf of the insured, shall be deemed representations and not warranties.
2. The Association may cancel or rescind a policy of insurance upon occurrence of any of the following:
 - (a.) Non-payment of premium, including non-payment from insufficient funds (NSF) check, resulting in cancellation of policy ab initio;

- (b.) Evidence of incendiaries;
- (c.) Any misrepresentation or omission of fact that is fraudulent;
- (d.) Any misrepresentation, omission, concealment of fact or incorrect statement that is material either to the acceptance of the risk or to the hazard assumed by the Association; or
- (e.) Any misrepresentation, omission, concealment of fact or incorrect statement such that, if the true facts were known to the Association, the Association would either not have issued the policy or contract, or would not have issued the policy or contract at the premium rate as applied for, or would not have issued a policy or contract in as large an amount, or would not have provided coverage for the hazard resulting in the loss.
- (f.) Any cause arising subsequent to the underwriting inspection which would have been grounds for non-acceptance of the risk had such cause existed at the time of acceptance.
- (g.) Where wind and hail coverage is in place, failure to maintain essential underlying fire and extended coverage in an amount no less than the wind and hail coverage in place.
- (h.) Failure to maintain flood insurance in an amount no less than the limits provided under the Association policy in areas where flood insurance is required by the Association.
- (i.) Any failure of the insured to fully adhere to all AIUA Rules and

Procedures and/or policy provisions.

3. Notice of cancellation, together with a statement of the reason therefor, shall be sent to the insured. Such notice shall include information concerning the insured's right to appeal and procedures therefor.

Section VIII – Appeals

1. Any applicant for insurance, any person insured by the Association, any Producer, and any Member may appeal to the Board of Directors within thirty (30) days after any ruling, action or decision of the Association. The Board of Directors shall consider and determine such appeal within thirty (30) days after the same is filed, or such other time as may be agreed upon by the Association and the appealing party. A final decision on appeal by the Board of Directors may thereafter be appealed to the Commissioner within thirty (30) days.
2. An Appeals Committee selected pursuant to Section XII (7) may be designated to review and provide non-binding recommendations regarding any appeal hereunder. All final decisions on appeal shall be made by the Board of Directors.

3. Orders of the Commissioner shall be subject to judicial review as provided by Statute.
4. The Board and any committee of the Board shall be relieved from all judicial formalities and procedures in reviewing appeals, provided that fairness and consideration shall be observed so that each party may have an opportunity to present its views. The Plan of Operation, Articles of Agreement and rules of the Association shall, in all appeals, be construed as binding on the Association and its Members.

Section IX – Association Participation

1. The Association shall, on behalf of its Members, be authorized to issue policies or certificates of insurance on eligible risks. It is also authorized to purchase reinsurance on behalf of its members, provided such reinsurance is authorized by a majority of the Directors.
2. Each Member shall participate in the Association's writings, expenses, profits and losses in the proportion that the Net Direct Premiums of such Member written in the State during the preceding calendar year bears to the aggregate Net Direct Premiums written in the State by all Members of the Association factored as prescribed by the Board. The Commissioner shall certify to the

Association, after review of annual statements, other reports, and any other statistics deemed necessary, the aggregate Net Direct Premiums written by all Members. A Member shall, subject to compliance with all applicable Association rules and procedures, receive annual credit (factored as prescribed by the Board) for Essential Property Insurance voluntarily written in the Gulf Front, Beach and Seacoast Areas, and its annual participation in the gains and losses of the Association shall be adjusted accordingly.

3. Any insurer newly authorized to write and engage in writing Essential Property Insurance or Wind and Hail Coverage after the effective date of this Plan shall become a Member of the Association on the November 1 immediately following such authorization, and determination of such Member's participation in the Association shall be made as of the date of such membership in the same manner as for all other Members of the Association.
4. The Board of Directors, acting on behalf of the Association, is authorized to make a preliminary assessment upon all Members and such further assessments as may be deemed necessary.
5. The assessment of each Member shall be based on its Net Participation as reflected on the books of the Association at the time of the loss.

6. No assessment shall be made by the Association for losses until available plan funds in any calendar year have been paid or allocated for payment. In the event of catastrophe loss requiring assessment, a first partial loss assessment will be limited to not exceed \$2 million per Member.
7. A penalty or late charge of one (1) percent shall be added to the assessment each full week that a Member's assessment, or any part thereof, is not paid within twenty (20) calendar days from the date the notice of assessment is mailed by the Association.

Section X – Commissions

1. Commission to the licensed Producer designated by the applicant shall be as determined by the Board of Directors and approved by the Commissioner.
2. In the event a policy is cancelled, or an endorsement is issued which requires premium to be returned to the insured, the Producer shall refund to the Association commissions on the unearned portion of canceled liability and on reductions in premiums at the same rate such commissions originally were paid.

Section XI – Board of Directors

1. This Plan shall be administered by a Board of Directors (herein referred to as "the Board") of the Alabama Insurance Underwriting Association, subject to the review of the Commissioner.

2. The Board shall consist of eleven members, two of which shall be a domestic insurer. The Property Casualty Insurers Association of America(PCI), American Insurance Association(AIA) and National Association of Mutual Insurance Companies(NAMIC) shall be represented on the Board, but the Board shall not be limited to companies belonging to those Trade Associations. If there are no member companies willing to serve in order to achieve this diversity, selection will be based on the greatest votes obtained during the Board election process. Nine Board Members shall be elected annually by cumulative voting by the Members of the Association, whose votes in such election shall be weighted in accordance with the proportion each Member's Net Direct Premiums written in the State during the most recent calendar year for which data is available bears to the aggregate Net Direct Premiums written by all Members. Voting may be in person or by proxy. Nominations for election to the Board of Directors as prepared by the Nominating Committee shall be distributed to Members at least sixty (60) days prior to the election, and nominations will be held open another thirty (30) days to allow nominations from the general membership. Thirty (30) days prior to the election, all nominations will be closed and the nominees will be placed on the ballot and distributed to the membership. Not more

than one insurer in a group under the same management or ownership shall serve on the Board at the same time. Two Board Members shall be appointed annually by the Alabama Commissioner of Insurance for a term of one year. Appointed Board Members, one from Baldwin County and one from Mobile County, shall be residents of Alabama, preferably with business experience, having lived/worked in the area they represent for ten (10) or more years.

Section XII – Annual and Special Meetings

1. The annual meeting of Members for the election of the Board and such other business as may be necessary shall be held in the State of Alabama at a time and place to be determined by the Board each year. At any regular or special meeting at which the vote of the Members is or may be required on any proposal, voting may be in person or by proxy. Voting at regular or special meetings of Members, or any vote of the Members which may be taken by mail, shall be cast and counted on a weighted basis in the same proportion as each Member's Net Direct Premiums written bears to the aggregate Net Direct Premiums written by all Members, as factored by the Board. A proposal shall become effective when approved by the majority of the votes cast on such weighted basis.

2. As soon as practicable after election to membership on the Board, and thereafter from time to time as it may elect, a Member may designate a qualified representative and an alternate of such representative to serve for it and shall immediately notify in writing the Manager of the Association of such designation.
3. Officers – The Board shall elect a Chairperson, Vice Chairperson, Secretary, Treasurer and Manager.
 - (a.) The Chairperson shall preside over all meetings of the Board and all meetings of the Members. The Chairperson shall discharge such other duties as may be incidental to that office or which shall be required by these rules or by the Board.
 - (b.) The Vice-Chairperson shall preside at any meeting of the Board in the absence of the Chairperson. In the event of death, incapacity or disability of the Chairperson, the Vice-Chairperson shall perform the duties of the Chairperson until such office has been filled by the Board.
 - (c.) The Secretary shall issue all notices of meetings, record minutes of all meetings, keep the records of the Board, and discharge such other duties as may be incidental to that office or which shall be required by these rules or by the Board.

- (d.) The Treasurer shall discharge such duties as may be incidental to that office or which shall be required by these rules or by the Board.
 - (e.) The Manager shall discharge such duties as may be incidental to that office or which shall be required by these rules or by the Board.
4. Special Meetings – Special meetings of the Board or of the Members may be held upon the call of the Chairperson or, in the event of his resignation, death or incapacity, upon the call of the Vice-Chairperson. Any **six** Members of the Board, acting by their designated representatives may request that the Chairperson call a meeting of the Board or of the Members at such time and place and for such purposes as may be specifically stated in writing in such request. Should the Chairperson decline to call such meetings, the same may be called by the **six** members making the request. Such special meetings may be held at the principal office of the Association or at such other place within or without the State of Alabama as may be designated in the call.
5. Notices of Meetings – Notices of all meetings shall be given by the Secretary to the Board of Directors, and in the case of meetings of the Members, to the Members and shall state the time and place and the principal purposes therefor. Such notice may be given by

telephone or mail, directed to the “attention” of each Member’s designated representative and shall be mailed no later than ten days before the meeting. Any Member or the designated representative of any Member may waive notice of any meeting, and the presence of such representative at any meeting shall constitute a waiver of notice as to such insurer.

6. Advance Agenda – The Secretary, after consultation with the Chairperson, shall prepare in advance of each meeting of the Board and each meeting of the Members an agenda which shall be forwarded to the Board of Directors and/or to the Members, as the case may be, in advance of any such meeting.
7. Committees – Subject to the Articles of Agreement, the Chairperson of the Board may appoint, or the Board may elect, such standing committees or such temporary or special committees as are deemed necessary for the transaction of its business. Unless otherwise specified herein, members of such committees need not be members of the Board. Without limiting the generality of the foregoing, the Chairperson may appoint or the Board may elect a committee of not less than three (3) members of the Board (one of whom shall be designated the chairperson) who shall have such authority as provided under Section VIII hereof.

8. Ex-Officio Members – The Chairperson and Vice Chairperson of the Board shall be ex-officio members of all standing or special committees, with the right to vote.
9. Ballot by Board – Voting by mail, **e-mail**, or telephone is permitted by the Board and any matter thus submitted shall be carried provided it receives an affirmative vote from a majority of the members of the Board.
10. The Board of Directors of the Association may, at their discretion, subject to the approval of the Commissioner, amend the Plan of Operation at any time.

Section XIII – Powers and Duties of the Board

1. The Board shall meet as often as may be necessary to perform the general duties of the administration of the Plan or at the request of the Commissioner. **Seven** members of the Board shall constitute a quorum.
2. The Board shall be empowered to appoint or otherwise contract for the services of a Manager; to budget expenses, levy assessments including preliminary assessments; disburse funds; and to establish such other rules and perform all other duties necessary or incidental to administration of the Plan. The adoption of substantive changes in pension plans or employee benefit programs shall be subject to the approval of the Members.

Assessments upon Members shall be levied as described in Section IX.

3. Annually the Manager and Treasurer shall prepare an operating budget, which shall be subject to approval of the Board. Any contemplated expenditure in excess of or not included in the annual budget shall require prior approval of the Board.
4. The Board shall furnish to the Commissioner a written report of operations annually on or before July 1 in such form and detail as the Commissioner may determine. A copy of such report shall be furnished to all Members.

ARTICLES OF AGREEMENT

The purpose of these Articles of Agreement is to evidence agreement by the Alabama Insurance Underwriting Association to administer the Plan of Operation.

ARTICLE I

Name

This organization shall be known as the Alabama Insurance Underwriting Association, a voluntary unincorporated nonprofit association.

ARTICLE II

Governing Rules

The Association shall be governed by the Plan of Operation, the Articles of Agreement, and other rules established by the Board of Directors.

ARTICLE III

Objects

The objects of the Association shall be: (1) to administer the Plan of Operation; (2) to provide Essential Property Insurance in the Gulf Front, Beach and Seacoast Areas of Alabama in accordance with the Plan of Operation; (3) to provide Wind and Hail Coverage in the Beach and Seacoast Areas of Alabama in accordance with the Plan of Operation; (4) to assume and cede reinsurance on behalf of Member Insurers in accordance with the Plan; (5) to provide a method whereby Members voluntarily writing Essential Property Insurance in the Gulf Front, Beach and Seacoast Areas or Wind and Hail Coverage in the Gulf Front, Beach and Seacoast Areas will be relieved wholly or partially from participation in the Association's gains or losses; and (6) to do and perform such acts and things as shall be necessary or proper to effectuate the foregoing.

ARTICLE IV

Membership

1. Membership - Every Insurer licensed to write Essential Property Insurance or Wind and Hail Coverage on a direct basis in the State shall be a Member of the Association and shall be referred to herein as a Member.

2. Termination - Membership of any Member shall terminate when such Member is no longer licensed to transact Essential Property Insurance or Wind and Hail Coverage in the State. Any member whose membership in the Association has been terminated shall, nevertheless, continue to be governed by these Articles of Agreement and the Plan of Operation in order to complete its obligations with regard to any assessments, losses, expenses, contracts or undertakings under the Plan of Operation which arose prior to such termination.

ARTICLE V

Syndicate Policy

1. Form and Liability - The Association is authorized to issue policies or certificates of insurance on property in such form that each Member of the Association shall be a direct Insurer thereunder in such proportion as it participates in the writings, expenses, profits and losses of the Association. Liability of each Member shall be several, each for itself, and not joint, and no Member shall be liable under such policy or certificate for the liability of any other member thereunder, except as provided in Article IX of the Articles of Agreement.

2. Attorney-in-Fact - Members of the Association shall be deemed to have authorized the Manager of the Association to act as attorney-in-fact for all Members to execute policies on behalf of the Members. Any policy or certificate of insurance issued

pursuant to this Article may be executed on behalf of the Members by an attorney-in-fact appointed hereunder. Where authorized by the Board of Directors, such attorney-in-fact shall pay, on behalf of such Members, premium and other taxes related to Association business on terms and conditions agreeable to the taxing authority involved. In the event of death, resignation or incapacity of said attorney-in-fact, the Board of Directors shall nominate and appoint his successor. No policy or certificate of insurance shall be affected or invalidated by any change of the attorney-in-fact who, at the time such policy or certificate of insurance was issued, shall have duly acted pursuant to the powers then vested in him.

ARTICLE VI

Association Office

The principal office the Association shall be in the State of Alabama

ARTICLE VII

Administration

The Association shall be administered by a Board of Directors in accordance with the Plan of Operation.

ARTICLE VIII

Indemnification

1. Right of Indemnification - The Association shall indemnify: (a.) each member of a governing committee (or other board or committee empowered to act in the capacity of the Board of Directors), each member of any other committee or any

subcommittee of the Board, each officer and employee of the Association, and estate, executor, administrator, heirs, legatees and devisees of any such person; (b.) every Member of the Association, both as a Member and by reason of such Member having one or more of its personal representatives or employees serving in any of the capacities or positions specified, in clause (a.) hereinabove; and (c.) every officer and employee of the Association, and the estate, executor, administrator, heirs, legatees or devisees of such person; against all judgments, including interest, fines, amounts paid or agreed upon in settlement, reasonable costs and expenses including attorneys fees, and any other liability that may be incurred as a result of any claim, action, suit, or proceeding, whether civil, criminal, administrative, or other, prosecuted or threatened to be prosecuted, for or on account of any act performed or omitted or obligation entered into, if done or omitted in good faith without intent to defraud and within what he/she reasonably believed to be the scope of his/her employment or authority and for a purpose which he/she reasonably believed to be in the best interest of and connection with the administration, management, conduct or affairs of the Association, and with respect to any criminal actions or proceedings, in addition had no reasonable cause to believe that such conduct was unlawful. Provided, however, that if any such claim, action, suit or proceeding is compromised or settled, it must be done so with the prior and express approval of the Board of Directors.

2. Time of Indemnification - Such indemnification shall not depend upon whether such Insurer is a Member of the Board, Association, or any committee, at the time such claim, action, suit, or proceeding is begun, prosecuted or threatened, nor

upon whether the liability to be indemnified was incurred, or the act or omission occurred, prior to the adoption of this Article.

3. Effect on Other Rights - The right of indemnification hereunder shall not be exclusive of other rights such person or Member may have as a matter of law or otherwise.

4. Questions Involving Indemnification - In each instance in which a question of indemnification hereunder arises, determination in the first instance of the right to indemnification hereunder, and of the time, manner, and amount of payment thereof, shall be made by the Board. In the event that a majority of the Members of the Board are seeking indemnification hereunder as a result of the same occurrence, such determination in the first instance shall be made by vote of the Membership of the Association taken on a weighted basis as provided in the Plan of Operation. Nothing in this paragraph is intended to make an adverse determination finally binding upon the person or Insurer seeking indemnity under this section, or to preclude any such person or Insurer from appealing an adverse determination, or from instituting legal proceedings to enforce a right of indemnification under this Article.

5. Expense of Indemnification - The indemnification provided for in this Article shall be deemed an expense of the Association to which all Members of the Association shall contribute in the proportion that each member participates in the Association's writings, expenses, profits and losses.

ARTICLE IX

Insolvency

1. Insolvency of a Member - In the event any Member fails, by reason of Insolvency, to pay its proportion of any expense or loss incurred by the Association under the Plan of Operation, such unpaid loss or expense shall be paid by the remaining Members, each contributing in the manner provided for the distribution of expenses and losses under Section IX of the Plan of Operation, deleting therefrom the participation of the defaulting Member. The Association shall be subrogated to the rights of the remaining Members in any liquidation proceeding and shall have full authority on their behalf to exercise such rights in any action or proceeding.

2. Expense of Proceeding - The expenses incurred by the Association in such action or proceeding as referred to in Part 1 hereinabove shall be chargeable, subject to the approval of the court, against the insolvent Member as part of the expense of conservation or liquidation to the extent of a pro-rata share of the benefit which may accrue to such Member solely as a result of the defense undertaken by the Association.

ARTICLE X

Amendments

These Articles of Agreement may be amended by the Members with the approval of the Commissioner. The procedure of amendment shall be prescribed in Section XII of the Plan of Operation.

ARTICLE XI

Effective Date

These Articles of Agreement, as amended, are subject to approval by the Commissioner and shall become effective on April 16, 2004.

ARTICLE XII

Citation to the Commissioner

Failure of any Member to comply with the Articles of Agreement, Plan of Operation, or any rules prescribed thereunder by the Board of Directors, or to pay any assessment levied within thirty (30) days thereof, shall be grounds for citation of such Member to the Commissioner.

ARTICLE XIII

Appeal to the Commissioner

Any applicant or Member aggrieved by any ruling, order, decision, action, or refusal to act on the part of the Association may appeal to the Commissioner as provided in Section VIII of the Plan of Operation.

ARTICLE XIV

Termination of the Association

This Association shall terminate upon action of the majority of the Board of Directors, subject to the approval of the Commissioner, who shall approve such termination only if he is reasonably satisfied the reasons necessitating the

establishment of the Association no longer exist. In no event shall the Association exist beyond October 31, 2009 except by a vote of the Members to amend this Article.

ARTICLE XV

Acceptance of the Articles of Agreement

Acceptance of the Articles of Agreement on behalf of each new Member shall be made by its President or Vice President, and attested by its Secretary or Assistant Secretary, on the attached form entitled "Membership Agreement".

ARTICLE XVI

Definitions

The words "Association", "Beach Area", "Board", "Commissioner", "Essential Property Insurance", "Gulf Front Area", "Insolvency", "Insurable Property", "Member", "Plan of Operation", "Seacoast Area", "State", and "Wind and Hail Coverage", as used herein, shall have the meanings ascribed under Section II of the Plan of Operation.

* * * * *

MEMBERSHIP AGREEMENT

The undersigned by causing its corporate name to be hereunto subscribed by its President or a Vice President, and its corporate seal to be hereto affixed, attested by its Secretary or Assistant Secretary does hereby ratify the foregoing Articles of Agreement and declares its unqualified authorization to the Board of Directors to levy such assessments as are deemed necessary by the Board to carry out the purposes of the Plan as described to act as its agent in assuming and ceding reinsurance on behalf of the Member as authorized by the Plan, which reinsurance shall have the same effective rate as the ceding Member's liability. The Member hereby agrees to participate in the Plan and the Association, including any gains, losses, expenses, obligations, or contracts thereof, and to be bound by decisions of the Board of Directors with respect thereto.

Name of Company

President

Secretary

ATTEST:

DATE SUBSCRIBED:
