

North Carolina Insurance Underwriting Association

Audited Financial Statements - Statutory Basis

*Years ended December 31, 2019 and 2018
with Report of Independent Auditors*

North Carolina Insurance Underwriting Association

Audited Financial Statements - Statutory Basis

Years ended December 31, 2019 and 2018

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Report of Independent Auditors

Board of Directors
North Carolina Insurance Underwriting Association

We have audited the accompanying statutory basis financial statements of North Carolina Insurance Underwriting Association (the Association), which comprise the balance sheets - statutory basis as of December 31, 2019, and the related statutory basis statements of operations, changes in surplus and cash flows for the year then ended and the related notes to the statutory basis financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these statutory basis financial statements in accordance with accounting practices prescribed or permitted by the North Carolina Department of Insurance. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of statutory basis financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these statutory basis financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statutory basis financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory basis financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statutory basis financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the statutory basis financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the statutory basis financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note A to the statutory basis financial statements, the Association prepared these statutory basis financial statements using accounting practices prescribed or permitted by the North Carolina Department of Insurance, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). Accordingly, the statutory basis financial statements are not intended to be presented in accordance with GAAP. The effects on the statutory basis financial statements of the variances between statutory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Report of Independent Auditors (Continued)

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the statutory basis financial statements referred to above do not present fairly, in accordance with GAAP, the financial position of the North Carolina Insurance Underwriting Association as of December 31, 2019, or its results of operations or its cash flows for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the statutory basis financial statements referred to above present fairly, in all material respects, the balance sheet - statutory basis as of December 31, 2019, and the results of its operations and cash flows for the year then ended, on the basis of accounting described in Note A.

Other Matters

Prior Auditors

The statutory basis financial statements of the Association as of and for the year ended December 31, 2018, were audited by another auditor, whose report dated April 23, 2019 expressed an adverse opinion on those statements in accordance with GAAP and an unmodified opinion on those statements on the basis of accounting described in Note A.

Other Financial Information

Our audit was conducted for the purpose of forming an opinion on the statutory basis financial statements taken as a whole. The accompanying Reinsurance Summary Supplemental Filing for General Interrogatory 9, Supplemental Investment Risks Interrogatories and Summary Investment Schedule of the Association as of December 31, 2019 are presented for purposes of additional analysis and are not a required part of the 2019 statutory basis financial statements but are supplementary information required by the North Carolina Department of Insurance. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the statutory basis financial statements. The information has been subjected to the auditing procedures applied in the audit of the statutory basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory basis financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the statutory financial statements as a whole.

A handwritten signature in black ink that reads "Johnson Lambert LLP". The signature is written in a cursive, flowing style.

Raleigh, North Carolina
April 8, 2020

North Carolina Insurance Underwriting Association

Balance Sheets - Statutory Basis

	As of December 31,	
	2019	2018
Admitted assets		
Bonds	\$ 757,162,916	\$ 1,041,375,833
Cash and short-term investments	60,674,450	(17,532,997)
Total cash and invested assets	817,837,366	1,023,842,836
Accrued investment income	3,831,332	5,183,597
Deferred premiums	22,312,294	21,599,768
EDP equipment and software	7,055,297	13,637,076
Premium tax recoverable	-	424,888
Total admitted assets	\$ 851,036,289	\$ 1,064,688,165
Liabilities and surplus		
Liabilities:		
Reserve for losses	\$ 114,709,851	\$ 228,931,030
Reserve for loss adjustment expenses	15,937,149	27,662,948
Commissions payable and other similar charges	2,884,212	3,264,769
Other expenses payable	723,487	997,199
Taxes, licenses and fees payable	41,899	-
Unearned premiums	168,526,986	167,227,341
Advanced premiums	7,387,265	8,698,344
Amounts withheld for account of others	1,059,123	9,924,161
Payable to affiliates	2,490,133	5,555,934
Pension and postretirement benefit obligation	9,731,803	7,575,533
Other liabilities	12,887,905	3,315,808
Total liabilities	336,379,813	463,153,067
Surplus	514,656,476	601,535,098
Total liabilities and surplus	\$ 851,036,289	\$ 1,064,688,165

See accompanying notes to the statutory basis financial statements

North Carolina Insurance Underwriting Association

Statements of Operations - Statutory Basis

	Years ended December 31,	
	<u>2019</u>	<u>2018</u>
Underwriting loss		
Premiums earned	\$ 263,446,036	\$ 312,537,340
Deductions:		
Losses incurred	262,992,060	1,126,311,413
Loss adjustment expenses incurred	25,806,902	113,270,812
Other underwriting expenses incurred	<u>70,790,448</u>	<u>70,436,133</u>
Total underwriting expenses	<u>359,589,410</u>	<u>1,310,018,358</u>
Net underwriting loss	<u>(96,143,374)</u>	<u>(997,481,018)</u>
Investment income		
Net investment income earned	16,800,851	35,440,380
Net realized capital losses	<u>(818,218)</u>	<u>(775,971)</u>
Net investment income	<u>15,982,633</u>	<u>34,664,409</u>
Other (expense) income	<u>(5,753,720)</u>	<u>331,785</u>
Net loss	<u>\$ (85,914,461)</u>	<u>\$ (962,484,824)</u>

See accompanying notes to the statutory basis financial statements

North Carolina Insurance Underwriting Association

Statements of Changes in Surplus - Statutory Basis

	Years ended December 31,	
	<u>2019</u>	<u>2018</u>
Surplus, beginning of year	\$ 601,535,098	\$ 1,543,126,366
Net loss	(85,914,461)	(962,484,824)
Change in non-admitted assets	98,337	18,687,448
Change in minimum pension liability	<u>(1,062,498)</u>	<u>2,206,108</u>
Surplus, end of year	<u>\$ 514,656,476</u>	<u>\$ 601,535,098</u>

See accompanying notes to the statutory basis financial statements

North Carolina Insurance Underwriting Association

Statements of Cash Flows - Statutory Basis

	Years ended December 31,	
	2019	2018
Cash from operations		
Premiums collected, net of reinsurance	\$ 262,683,607	\$ 307,363,032
Net investment income received	22,927,707	45,480,237
Miscellaneous (expense) income (paid) received	(5,753,720)	331,785
Benefits and loss related payments, net	377,213,239	904,773,202
Commissions and other underwriting expenses paid	108,510,631	158,015,784
Net cash used in operations	(205,866,276)	(709,613,932)
Cash from investments		
Proceeds from bonds sold, matured, or repaid	357,735,837	918,633,027
Cost of bonds acquired	(79,115,728)	(366,000,516)
Net cash from investments	278,620,109	552,632,511
Cash from financing and miscellaneous sources		
Other cash provided	5,453,614	20,699,093
Net cash from financing and miscellaneous sources	5,453,614	20,699,093
Net change in cash and short-term investments	78,207,447	(136,282,328)
Cash and short-term investments, beginning of year	(17,532,997)	118,749,331
Cash and short-term investments, end of year	\$ 60,674,450	\$ (17,532,997)

See accompanying notes to the statutory basis financial statements

North Carolina Insurance Underwriting Association

Notes to Statutory Basis Financial Statements

Years ended December 31, 2019 and 2018

Note A - Organization and Significant Accounting Policies

Organization

North Carolina Insurance Underwriting Association (the Association) was formed August 15, 1969 as an association of insurance companies (Member Insurers) mandated by North Carolina law. The Association is authorized to write commercial, fire, extended coverage and vandalism and malicious mischief coverage in the State of North Carolina. The Association, also known as the Coastal Property Insurance Pool, is a tax-exempt insurer of last resort created by law to provide adequate essential property insurance to property owners having insurable property in the beach and coastal areas of North Carolina. The Association is an association of insurance companies authorized to write essential property insurance coverage in North Carolina. The majority of the Association's policies are submitted by North Carolina licensed agents.

Because the Association only writes business in beach and coastal areas in the State of North Carolina, it has a geographic concentration of policies written, which results in increased loss exposure for severe storms. Under North Carolina law, all insurers authorized to write and engage in writing essential property insurance in North Carolina on a direct basis, except town and country mutual insurance associations, certain assessable mutual companies and certain insurers who only write insurance on property exempted from taxation under the North Carolina General Statutes, are required to participate in the Association. The Association's exposure to coastal properties is described further in Note B.

The Association is administered by a Board of Directors and is subject to the regulation of the Commissioner of Insurance of the State of North Carolina (the Commissioner). The Board of Directors consists of representatives of the Member Insurers, insurance agents appointed by the Commissioner and public members also appointed by the Commissioner. The general manager of the Association is appointed by the Board of Directors.

Basis of Reporting

For regulatory purposes, the Association prepares its financial statements in accordance with accounting practices prescribed or permitted by the North Carolina Department of Insurance (statutory accounting practices). Prescribed statutory accounting practices include a variety of publications of the National Association of Insurance Commissioners (NAIC), as well as state laws, regulations and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed. The NAIC Accounting Practices and Procedures Manual (NAIC Statutory Accounting Practices) has been adopted as a component of prescribed or permitted practices by the state of North Carolina. There are no differences between statutory surplus as presented in these financial statements as of December 31, 2019 and 2018 (as prescribed or permitted by the state of North Carolina) and NAIC Statutory Accounting Practices.

The preparation of statutory basis financial statements requires management to make estimates and assumptions. Those estimates and assumptions affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statutory balance sheets, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

North Carolina Insurance Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note A - Organization and Significant Accounting Policies (Continued)

Basis of Reporting (Continued)

Statutory accounting practices vary in some respects from accounting principles generally accepted in the United States of America (GAAP). The more significant variances from GAAP applicable to the Association are as follows:

- For statutory purposes, debt securities are generally carried at amortized cost or fair value based on the rating received from the Securities Valuation Office (SVO) of the NAIC. Under GAAP, investments in debt securities, other than those intended to be held-to-maturity, are recorded at fair value, with unrealized gains and losses recorded as either a separate component of accumulated other comprehensive income (for debt securities classified as available-for-sale), or as a direct charge to net income (debt securities classified as trading securities).
- Policy acquisition costs, net of ceding commission received pursuant to reinsurance agreements, are charged to operations in the year such costs are incurred, rather than being deferred and amortized over the terms of the policies as would be required under GAAP.
- Certain assets, including most property and equipment and certain receivables, are non-admitted for statutory purposes. Those assets designated as non-admitted are charged against surplus.
- Reserves for losses and loss adjustment expenses and unearned premiums are reported net of applicable reinsurance, whereas for GAAP purposes these reserves are recorded gross of applicable reinsurance.
- For statutory purposes, a reserve for reinsurance is established, through a direct charge to surplus, for unsecured reinsurance recoverables from unauthorized reinsurers and overdue authorized reinsurance recoverables; such reserves are provided under GAAP based on management's estimates of doubtful recoveries, but are charged against net income.
- The statutory statements of cash flow does not classify cash flow consistent with GAAP, and a reconciliation of net income to net cash provided by operating activities is not provided.
- Comprehensive income is not reported for statutory purposes.

Investments

Investments are recorded at admitted asset values, as prescribed by the NAIC's SVO valuation procedures. Amortization is calculated using the effective interest method.

The Association invests in bonds. Investment securities are exposed to risks such as interest rate, market, liquidity and credit risk. Due to the level of the risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities may occur in the near term and those changes could materially affect the amounts reported on the balance sheets - statutory basis.

Declines in fair value of invested assets below cost or amortized cost are evaluated for other-than-temporary impairment (OTTI). The decision as to whether an impairment of a security is other-than-temporary incorporates both quantitative criteria and qualitative information. The Association conducts a periodic review to identify and evaluate securities for OTTI.

North Carolina Insurance Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note A - Organization and Significant Accounting Policies (Continued)

Investments (Continued)

When, in the opinion of management, a decline in the estimated fair value of an investment is considered to be other-than-temporary, the investment is written down to its estimated fair value. For debt securities, OTTI is considered to have occurred if it is probable that the Association will be unable to collect all amounts due according to the contractual terms of the security in effect at the date of acquisition. The determination of an other-than-temporary decline in estimated fair value includes, in addition to other relevant factors, a periodic assessment of the changes in value relative to cost, determination of the Association's ability and intent to retain the investment for a period of time sufficient to allow for an anticipated recovery in value, and the financial condition, credit analysis, and future prospects of the issuer. Any such write-downs are reported as net realized losses on investments.

Current accounting guidance establishes a three-level hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level 1), the next priority to quoted prices for identical assets in inactive markets or similar assets in active markets (Level 2) and the lowest priority to unobservable inputs (Level 3).

Accrued interest over 90 days past due is non-admitted. No portion of the investment income due and accrued was required to be non-admitted as of December 31, 2019 and 2018.

Cash and Short-Term Investments

Cash and cash equivalents consist of highly liquid investments with original maturities of three months or less when purchased. Short-term investments consist of investments with original maturities of one year or less when purchased. The Association maintains certain cash and cash equivalents balances that exceed FDIC insurance thresholds, which management does not consider to be a significant risk.

Deferred premiums

Premiums receivable are presented net of non-admitted amounts. Deferred premiums consist of future, unbilled installments. Due to terms included in policies that require cancellation if payment is not made prior to applicable payment due dates, the Association does not record billed and uncollected premiums.

Premiums

Premiums written directly, net of premiums ceded pursuant to reinsurance agreements, are earned ratably over the terms of the policy. Premiums written, net of reinsurance ceded, relating to the unexpired portion of policies in-force at the balance sheet date are recorded as unearned premiums. Expenses incurred in connection with acquiring new insurance business, such as sales commissions, are charged to operations as incurred and are reduced for ceding commissions received or receivable under reinsurance agreements.

If anticipated losses, loss adjustment expenses, commissions and other acquisition costs exceed the Association's recorded unearned premium reserve and any future installment premiums on existing policies, a premium deficiency reserve is recognized by recording an additional liability for the deficiency. The Association does not include investment income as a factor in the premium deficiency reserve calculation. The Association recorded no premium deficiency reserve as of December 31, 2019 or 2018.

North Carolina Insurance Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note A - Organization and Significant Accounting Policies (Continued)

Loss and Loss Adjustment Expenses

The reserves for unpaid losses and loss adjustment expenses (LAE) represent the estimated ultimate net cost of all reported and unreported losses that are unpaid as of the balance sheet date, net of amounts recoverable pursuant to reinsurance agreements. In establishing the reserve for losses and LAE, two generally accepted actuarial methodologies, the paid loss and incurred loss development methods, were predominately applied to each line of business. The liability for unpaid losses and LAE is an accounting estimate and, similar to other accounting estimates, actual future losses could differ from the initial estimate. The methods of determining such estimates and the resulting estimated liability are continually reviewed by management and updated. The Association booked total reserves for losses and LAE precisely to its consulting actuary's central estimate as of December 31, 2019 and 2018. In response to estimating the impact of Hurricane Florence and Hurricane Dorian, as of December 31, 2019, the consulting actuary adjusted its methodology to focus on the monthly loss development patterns associated with individual storms. In prior years, an annual loss development approach was utilized to estimate the ultimate catastrophe activity for a given year in addition to the monthly patterns. Revisions in estimates of the liabilities are included in current operations as they occur. Although considerable variability is inherent in such estimates, management believes that the reserves for losses and LAE are adequate.

The Association has not reduced its loss and LAE reserves for anticipated salvage and subrogation recoveries. Such recoveries are reported as a reduction of losses incurred when the cash related to such recoveries is received. Salvage and subrogation recoveries for the years ended December 31, 2019 and 2018 were \$982,689 and \$357,189, respectively.

Member Participation

Each Member Insurer's participation in the Association's operations is in proportion to its member's North Carolina insurance writings for the affected lines of business in the preceding calendar year. Participation percentages vary from year to year. Assessments of members related to each fiscal year are based on their participation. Since the Association has the authority to assess its members to cover members' deficits, members can be assessed annually to meet the liquidity requirements of the Association. Assessments are also permitted for large unanticipated losses. Assessments are recognized as a component of surplus.

Reinsurance

The Association utilizes ceded reinsurance to limit its insurance risk. Reinsurance recoverable is estimated using assumptions consistent with those used to estimate the reserves for losses and LAE. In preparing financial statements, management makes estimates of amounts recoverable from reinsurers, which include consideration of amounts, if any, estimated to be uncollectible by management based on an assessment of factors, including the creditworthiness of the reinsurers. Any change in the ability of the Association's reinsurers to meet their contractual obligations could have a detrimental impact on the Association's ability to meet its regulatory capital and surplus requirements, as reinsurance contracts do not relieve the Association from its obligations to policyholders. Reinsurance recoverable on losses and LAE paid by the Association are reported as an asset, while reinsurance recoverable on unpaid losses and LAE are reported as a reduction of the gross reserve. The Association did not record a valuation allowance for reinsurance recoverable as of December 31, 2019 or 2018.

North Carolina Insurance Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note A - Organization and Significant Accounting Policies (Continued)

Electronic Data Processing Equipment

Admitted electronic data processing (EDP) equipment is stated at cost, less accumulated depreciation, and is depreciated using the straight-line method over three to five years, as appropriate. EDP equipment is limited to 3% of surplus, subject to certain specified adjustments. Maintenance and repair costs are charged to expense as incurred.

Federal Income Taxes

In 1992, the Association received correspondence from the Internal Revenue Service (IRS) indicating that it is tax-exempt under Section 501(c)(6) of the Internal Revenue Code. The Association's tax-exempt status was examined by the IRS in 2011, and the Association's exemption was reaffirmed.

Accounting Pronouncements Adopted

During 2019, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-14, *Changes to the Disclosure Requirements for Defined Benefit Plans* (Subtopic 715-20). This update was adopted by the NAIC through Statutory Accounting Principles (SAP) under SSAP 92 and 102, respectively. Under the new guidance, there are certain additions and eliminations to disclosures surrounding defined benefit plans. As of January 1, 2019, the Association has adopted and applied the standard retrospectively to all periods presented.

Subsequent Events

The Association evaluated subsequent events through April 8, 2020, the date on which these financial statements were available to be issued, and considered any relevant matters in the preparation of the financial statements and footnotes. In March 2020, the World Health Organization declared a pandemic related to the rapidly spreading coronavirus (COVID-19) outbreak, which has led to a global health emergency. As a result, economic uncertainties have arisen which could impact the Association's operations and its financial position. The extent of the impact of COVID-19 on the Association's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, as well as the impact on policyholders, employees and vendors, all of which are uncertain and cannot be predicted. The related financial impact cannot be reasonably estimated at this time.

North Carolina Insurance Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note B - Exposure to Coastal Properties

The Association has significant exposure to coastal properties, which have a higher risk of catastrophic events. During 2019, risk count and aggregate exposure was 208,440 and \$75.7 billion, respectively. During 2018, risk count and aggregate exposure was 213,665 and \$75.0 billion, respectively.

In the event that losses and expenses of the Association exceed available surplus, the Association is authorized to issue a non-recoupable assessment upon its Member Insurers not to exceed one billion dollars (\$1,000,000,000) for losses incurred from any events that occur in a given calendar year, regardless of when such assessments are actually levied on or collected from Member Insurers. Each Member Insurer of the Association must participate in non-recoupable assessments levied by the Association in the proportion that its net direct premium written in North Carolina during the preceding calendar year for residential and commercial properties outside of the beach and coastal areas bears to the aggregate net direct premiums written in North Carolina during the preceding calendar year for residential and commercial properties outside of the beach and coastal areas by all Member Insurers. Any assessment levied on Member Insurers by the Association (as ordered by the Board of Directors) generally is due from the Member Insurers within 30 days of assessment. There were no assessments during 2019 and 2018.

When the Association knows that it has incurred losses and loss expenses in a particular calendar year that will exceed the combination of available surplus, reinsurance and other sources of funding, including permissible member company assessments, the Association shall immediately give notice to the Commissioner that a deficit event has occurred. The Association can enter into any financing arrangements for the purpose of financing a deficit, provided that the pledge of catastrophe recovery charge amounts under such financing agreements shall not result in the actual levying of any catastrophe recovery charge until after the Association has incurred a deficit and until after the Commissioner has approved implementation of the Association's catastrophe recovery charge plan.

Note C - Insurance Activity

Premium activity as of December 31, 2019 and 2018 is summarized as follows:

	2019		
	Direct	Ceded	Net
Premiums written	\$ 331,690,375	\$ (66,944,694)	\$ 264,745,681
Change in Unearned premiums	(1,299,645)	-	(1,299,645)
Net premiums earned	<u>\$ 330,390,730</u>	<u>\$ (66,944,694)</u>	<u>\$ 263,446,036</u>
	2018		
	Direct	Ceded	Net
Premiums written	\$ 330,181,775	\$ (24,167,194)	\$ 306,014,581
Change in Unearned premiums	6,522,759	-	6,522,759
Net premiums earned	<u>\$ 336,704,534</u>	<u>\$ (24,167,194)</u>	<u>\$ 312,537,340</u>

North Carolina Insurance Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note C - Insurance Activity (Continued)

Premium balances due consist of the following at December 31, 2019 and 2018:

	2019	2018
Deferred premiums	\$ 22,350,763	\$ 21,599,768
Non-admitted premium balances	(38,469)	-
Admitted deferred premiums	\$ 22,312,294	\$ 21,599,768

Activity in the reserve for losses and LAE for the years ended December 31, 2019 and 2018, is summarized as follows:

	2019	2018
Balance at January 1	\$ 256,593,978	\$ 9,552,859
Losses and LAE incurred related to:		
Current year	97,188,000	1,241,746,000
Prior years	191,610,962	(2,163,776)
Total incurred losses and LAE	288,798,962	1,239,582,224
Losses and LAE paid related to:		
Current year	67,954,000	986,552,857
Prior years	346,791,940	5,988,248
Total paid losses and LAE	414,745,940	992,541,105
Balance at December 31	\$ 130,647,000	\$ 256,593,978

The estimated cost of loss and LAE attributable to insured events of prior years increased by \$191,610,962 in 2019 and decreased by \$2,163,776 in 2018. The 2019 increase is primarily due to unfavorable loss trends related to Hurricane Florence, a catastrophic event that occurred in September 2018. Hurricane Florence caused unprecedented damage to North Carolina's coastal region and required a large estimate of incurred but not reported (IBNR) reserves at December 31, 2018, creating added subjectivity for the 2018 reserves estimate. As updated information became known during 2019, the 2018 reserves estimate related to Hurricane Florence was adjusted. The favorable loss development that emerged in 2018 related to prior years is considered de minimis. Increases or decreases in loss and LAE reserve estimates occur as the result of the ongoing analysis of recent loss development trends. Original estimates have been adjusted as additional information becomes known regarding individual claims.

Losses and LAE incurred and the reserves for losses and LAE as of December 31, 2019 and 2018 have been offset by reinsurance recoverables amounting to \$0 and \$100,000,000, respectively. Amounts recovered pursuant to reinsurance agreements during the years ended December 31, 2019 and 2018 were \$100,000,000 and \$0, respectively.

North Carolina Insurance Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note C - Insurance Activity (Continued)

The provision for reinsurance established related to unauthorized or overdue reinsurance recoverables was \$0 at December 31, 2019 and 2018.

There is no unsecured reinsurance recoverable on paid and unpaid losses and LAE for individual reinsurers whose balances exceeded 3% of the Association's surplus as of December 31, 2019 and 2018.

The Association utilizes ceded reinsurance to limit insurance risk within its risk financing program. The Association's risk financing program also includes surplus, Member Insurer assessments and other statutorily-prescribed mechanisms for financing a deficit event affecting the Association. The Association's risk financing program, effective May 1, 2019, for potential claims obligations that arise from May 1, 2019, to May 1, 2020, provides reinsurance coverage from \$1.30 billion to \$2.87 billion. Several of the Association's reinsurance treaties require collateral to be held in a trust account in the event that ceded reinsurance recoveries are to be paid to the Association. Potential losses above \$2.87 billion could be covered by issuing post-event bonds, which would be funded by a catastrophe recovery charge. The Association's risk financing program includes two issued and outstanding catastrophe bonds, a type of insurance-linked security providing \$550 million of reinsurance coverage if a pre-specified catastrophic event were to occur. Member Insurer assessments provide \$1.00 billion of coverage prior to exceeding aggregate reinsurance limits.

The Association's risk financing program, effective May 1, 2018, for potential claims obligations that arise from May 1, 2018, to May 1, 2019, provides reinsurance coverage from \$1.00 billion through \$1.10 billion and \$2.69 billion to \$2.94 billion. Potential losses above \$2.94 billion could be covered by issuing post-event bonds, which would be funded by a catastrophe recovery charge. Member Insurer assessments provide \$1.00 billion of coverage from \$1.69 billion to \$2.69 billion.

For the excess of loss coverages described above, the Association is charged a provisional premium, which may be adjusted in accordance with a formula included in the reinsurance agreement for each excess layer if the limits of insurance in force (total insured value) increases by an average of greater than 10% or decreases by an average of greater than 5%.

The Association has not received a ceding commission as part of its reinsurance arrangements. Therefore, upon cancellation, no return commission would be due. At December 31, 2019 and 2018, the Association accrued \$2,884,212 and \$3,264,769, respectively, of commissions to be paid by the Association to agents under their agency agreements, which is included as part of commissions payable and other similar charges.

North Carolina Insurance Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note D - Investments

The cost or amortized cost and fair value of investments in bonds as of December 31, 2019 are summarized as follows:

	2019			Fair Value
	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Treasury obligations	\$ 156,324,220	\$ 806,578	\$ 30,798	\$ 157,100,000
Federal agency mortgage-backed securities	46,973,781	36,006	313,647	46,696,140
Mortgage-backed securities	102,397,566	199,262	2,010,596	100,586,232
Other loan-backed securities	65,035,239	179,965	27,371	65,187,833
Corporate debt obligations	375,982,110	2,930,448	198,145	378,714,413
Special revenue obligations	10,450,000	5,145	14,910	10,440,235
Total bonds	<u>\$ 757,162,916</u>	<u>\$ 4,157,404</u>	<u>\$ 2,595,467</u>	<u>\$ 758,724,853</u>

The cost or amortized cost and fair value of investments in bonds as of December 31, 2018 are summarized as follows:

	2018			Fair Value
	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Treasury obligations	\$ 216,824,796	\$ -	\$ 5,276,936	\$ 211,547,860
Federal agency obligations	10,264,013	-	426,813	9,837,200
Federal agency mortgage-backed securities	58,203,533	27,794	1,851,954	56,379,373
Mortgage-backed securities	90,997,027	49,021	3,067,265	87,978,783
Other loan-backed securities	106,888,110	-	1,598,709	105,289,401
Corporate debt obligations	555,198,354	6,685	14,714,642	540,490,397
Special revenue obligations	3,000,000	-	30,450	2,969,550
Total bonds	<u>\$ 1,041,375,833</u>	<u>\$ 83,500</u>	<u>\$ 26,966,769</u>	<u>\$ 1,014,492,564</u>

The summary of the amortized cost and fair value of the Association's investment in bonds at December 31, 2019 by contractual maturity, is shown below:

	Amortized Cost	Fair Value
Maturity:		
In 2020	\$ 143,711,109	\$ 143,665,053
In 2021-2024	325,746,015	328,130,244
In 2025-2029	73,299,206	74,459,351
Mortgage-backed securities	149,371,347	147,282,372
Other loan-backed securities	<u>65,035,239</u>	<u>65,187,833</u>
Total bonds	<u>\$ 757,162,916</u>	<u>\$ 758,724,853</u>

North Carolina Insurance Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note D - Investments (Continued)

The actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

Proceeds from the sale of investments in bonds were \$237,471,257 and \$874,311,066 in 2019 and 2018, respectively. Total maturities, calls and paydowns were \$120,264,580 and \$44,483,595 in 2019 and 2018, respectively. Gross gains of \$236,515 and \$4,097,777 and gross losses of \$1,054,733 and \$4,873,748 were realized on those disposals in 2019 and 2018, respectively.

Major categories of the Association's 2019 and 2018 net investment income are summarized as follows:

	2019	2018
Investment income:		
Bonds	\$ 18,221,188	\$ 36,623,312
Cash and short-term investments	154,047	597,795
Gross investment income	18,375,235	37,221,107
Investment expenses	(1,574,384)	(1,780,727)
Net Investment Income	\$ 16,800,851	\$ 35,440,380

The following table shows the fair value and gross unrealized losses aggregated by investment category and length of time securities have been in an unrealized loss position, as of December 31, 2019 and 2018:

	2019					
	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury obligations	\$ -	\$ -	\$44,933,585	\$ 30,798	\$ 44,933,585	\$ 30,798
Federal agency obligations	-	-	-	-	-	-
Federal agency mortgage-backed securities	9,361,832	4,592	27,183,863	309,055	36,545,695	313,647
Mortgage-backed securities	24,300,302	40,130	62,349,956	1,970,466	86,650,258	2,010,596
Other loan-backed securities	-	-	26,226,314	27,371	26,226,314	27,371
Corporate debt obligations	-	-	171,124,088	198,145	171,124,088	198,145
Special Revenue Obligations	5,885,090	14,910	-	-	5,885,090	14,910
Total bonds	\$39,547,224	\$ 59,632	\$331,817,806	\$ 2,535,835	\$371,365,030	\$ 2,595,467

North Carolina Insurance Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note D - Investments (Continued)

	2018					
	Less than 12 Months		Greater than 12 Months		Total	
	Unrealized		Unrealized		Unrealized	
	Fair Value	Loss	Fair Value	Loss	Fair Value	Loss
U.S. Treasury obligations	\$ -	\$ -	\$211,547,860	\$ 5,276,936	\$ 211,547,860	\$ 5,276,936
Federal agency obligations	-	-	9,837,200	426,813	9,837,200	426,813
Federal agency mortgage-backed securities	23,553,192	122,150	31,338,158	1,729,804	54,891,350	1,851,954
Mortgage-backed securities	12,141,921	-	75,836,862	3,067,265	87,978,783	3,067,265
Other loan-backed securities	18,389,203	112,342	86,900,198	1,486,367	105,289,401	1,598,709
Corporate debt obligations	109,504,346	2,879,280	426,181,726	11,835,362	535,686,072	14,714,642
Special Revenue Obligations	-	-	2,969,550	30,450	2,969,550	30,450
Total bonds	\$163,588,662	\$ 3,113,772	\$844,611,554	\$23,852,997	\$1,008,200,216	\$ 26,966,769

Based on consideration of the factors described in Note A, management believes that these securities are not other-than-temporarily impaired. For the years ended December 31, 2019 and 2018, no securities were determined to be other than temporarily impaired.

The following tables show fair value hierarchy levels for the Association's investments as of December 31, 2019 and 2018:

	2019			
	Level 1	Level 2	Level 3	Fair value
Bonds	\$ -	\$ 758,724,853	\$ -	\$ 758,724,853

	2018			
	Level 1	Level 2	Level 3	Fair value
Bonds	\$ -	\$ 1,014,492,564	\$ -	\$ 1,014,492,564

Note E - Debt

The Association entered into a credit agreement on July 1, 2019 that is effective through June 29, 2020. Under the credit agreement, the Association has access to a limited purpose revolving line of credit loan in the amount up to \$250,000,000. The purpose of this executed agreement is to provide the Association with funds to cover immediate cash flow needs resulting from a catastrophic event affecting the state of North Carolina.

North Carolina Insurance Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note E - Debt (Continued)

Should a catastrophic event occur in the state of North Carolina, the Association is statutorily granted the authority to issue a Special Assessment to its Members. The Board of Directors approved Special Assessment would serve as collateral for any draws on the revolving line of credit loan, up to the maximum of the approved Special Assessment amount or \$250,000,000. For any outstanding loan amounts related to the revolving line of credit, interest will accrue at a variable rate of one-month London Interbank Offered Rate (LIBOR) + 0.85%. Interest shall be computed and charged for the actual number of days elapsed on the basis of a year consisting of 360 days.

The Association did not draw on the line of credit during 2019. As of December 31, 2019, the Association did not have any outstanding balances in relation to the line of credit.

Note F - Other Underwriting Expenses

The significant components of other underwriting expenses incurred during 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Net commissions and brokerage	\$ 42,604,164	\$ 42,818,821
Board, bureaus and associations	253,117	227,775
Surveys & Inspections	1,357	1,170
Salaries and related items	6,904,024	5,699,400
Employee relations and welfare	2,600,290	2,946,971
Insurance	88,234	93,496
Directors' fees	49,846	33,386
Travel and travel items	37,700	65,746
Rent and rent items	250,582	431,651
Equipment	387	125,868
Cost or depreciation of EDP equipment and software	4,685,206	4,397,605
Printing and stationery	140,106	196,700
Postage and telephone	421,398	486,559
Legal and auditing	240,694	174,113
Taxes, licenses and fees	9,323,501	9,281,601
Other miscellaneous expenses	<u>3,189,842</u>	<u>3,455,271</u>
Other underwriting expenses incurred	<u>\$ 70,790,448</u>	<u>\$ 70,436,133</u>

Note G - Non-Admitted Assets

The significant components of non-admitted assets as of December 31, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Prepaid expenses	\$ 11,775	\$ 601,414	\$ (589,639)
Property and equipment	579,105	126,272	452,833
Deferred premiums	<u>38,469</u>	-	<u>38,469</u>
Totals	<u>\$ 629,349</u>	<u>\$ 727,686</u>	<u>\$ (98,337)</u>

North Carolina Insurance Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note H - Related-Party Transactions

A related organization, North Carolina Joint Underwriting Association (NCJUA), shares the same headquartered facility and is operated by the same personnel as the Association. This arrangement periodically results in receivables or payables between the Association and NCJUA. Most expenses are allocated between the two parties with 53% allocated to the Association and the remainder to NCJUA for the year ended December 31, 2019, and 57% allocated to the Association and remainder to NCJUA for the year ended December 31, 2018, except for certain expenses (furniture, computer hardware, board fees, programming, etc.) which are shared equally. If this cost sharing arrangement was not in place, the actual expense amounts for the Association would vary from the amounts reported in the statutory financial statements. At December 31, 2019 and 2018, the Association had a net payable to NCJUA of \$2,490,133 and \$5,555,934, respectively.

Note I - Capital and Surplus

Under North Carolina insurance regulations, the Association is not required to maintain a minimum capital and surplus. As of May 29, 2019, the Association received approval from the North Carolina Department of Insurance (the Department) exempting the Association from NAIC established risk-based capital (RBC) filing requirements. The Association is required to file information regarding its risk financing program annually. Prior to the approval, the Association filed an RBC statement with the Department annually.

Note J - Commitments and Contingencies

The Association and NCJUA previously jointly rented home office facilities under an operating lease agreement, which had an original expiration in calendar year 2025. During February 2019, the Association and NCJUA were released from this office lease and moved into a new building. A new lease agreement was entered into related to the new building. This lease agreement expires in calendar year 2029.

The Association was allocated 53% and 57% of the costs under these lease agreements during the years ended December 31, 2019 and 2018, respectively. The Association's allocated share of rent expense was \$536,759 and \$462,221 in the years ended December 31, 2019 and 2018, respectively. The Association also leases certain equipment jointly with NCJUA.

The Association's share of the future lease payments, based on current cost sharing provisions with NCJUA, under the terms of operating lease agreements at December 31, 2019, is as follows:

<u>Year</u>	<u>Amount</u>
2020	\$ 684,323
2021	727,444
2022	703,754
2023	702,727
2024 and after	<u>3,178,542</u>
	<u>\$ 5,996,790</u>

North Carolina Insurance Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note J - Commitments and Contingencies (Continued)

The Association and NCJUA are also required to pay a proportionate share of operating expense increases during the lease term for the building.

In the ordinary course of business, the Association from time to time is involved in litigation. Management does not believe the ultimate disposition of any current litigation in which the Association is involved will have a material effect on the Association's financial condition.

Note K - Employee Benefit Plans

Pension Benefits

The Association and NCJUA participate in a multiple-employer pension plan with other organizations called the Insurance Organizations Employees' Retirement Plan (the pension plan), which is administered by the Insurance Organizations' Pension Trust (IOPT). Employees automatically participate in the Plan on the first day of the month on or after the date they complete one year of eligible service and are at least age 21. One year of eligible service for determining plan participation is the 12-month period beginning on their date of hire and each anniversary of that date during which the employee completes at least 1,000 hours of service. The Association's funding policy is to make the minimum annual contributions required by applicable regulations, which are based on recommendations from the Plan's actuary. For the years ended December 31, 2019 and 2018, the Association is allocated 53% and 57%, respectively, of their allocated costs associated with their participation in the plan under the current cost-sharing arrangement with NCJUA.

Postretirement Benefits

In addition to pension benefits, the Association and NCJUA provide certain healthcare and life insurance (postretirement) benefits for retired employees. The costs and accrued liabilities associated with these benefits are allocated between the two entities in the same proportions as for the pension plan. Based on the number of years of service and retirement age, retirees are eligible to continue medical coverage on a contributory basis or noncontributory basis. Medical benefit eligibility requirements include that employees: (1) meet normal or early retirement requirements, as defined by the pension plan; (2) must have been a full time employee five years or more immediately preceding retirement; and (3) must meet group coverage eligibility immediately preceding retirement. Spouses of retirees may also be eligible to participate.

The discount rate used in 2019 in determining the accumulated postretirement benefit obligation was 3.75%. The health care cost-trend rate was 6.25%, decreasing to an ultimate rate of 4.50% in 2026. The discount rate used in 2018 in determining the accumulated postretirement benefit obligation was 4.50%. The health care cost-trend rate was 6.00%, decreasing to an ultimate rate of 4.50% in 2023.

The Association uses December 31 as the measurement date for calculating its obligations related to the plans.

Projected benefit obligations represent the obligations for past service and for expected future compensation as of the measurement date. Accumulated benefit obligations represent obligations based on employee service and compensation prior to the measurement date.

North Carolina Insurance Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note K - Employee Benefit Plans (Continued)

The reconciliations of the benefit obligations as of December 31, 2019 and 2018, for pension and postretirement are as follows:

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Benefit obligation at beginning of year	\$ 6,896,768	\$ 7,656,420	\$ 4,487,033	\$ 5,256,631
Service cost	408,847	475,074	285,257	373,803
Interest cost	271,832	273,121	177,181	190,097
Contributions by plan participants	-	-	23,397	22,671
Actuarial loss (gain)	1,576,350	(545,499)	723,948	(1,244,393)
Benefits paid	<u>(171,345)</u>	<u>(962,348)</u>	<u>(102,867)</u>	<u>(111,776)</u>
Benefit obligation at end of year	<u>\$ 8,982,452</u>	<u>\$ 6,896,768</u>	<u>\$ 5,593,949</u>	<u>\$ 4,487,033</u>
Accumulated benefit obligation, end of year	<u>\$ 6,388,321</u>	<u>\$ 5,944,197</u>	<u>\$ 5,593,949</u>	<u>\$ 4,487,033</u>

The actuarial losses for 2019 and actuarial gains for 2018 are primarily due to adjustments to the discount rate to reflect current market conditions for an investment portfolio of high-quality debt instruments.

The changes in plan assets at December 31, 2019 and 2018, are as follows:

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Changes in plan assets:				
Fair value of plan assets, beginning of year	\$ 3,808,268	\$ 4,677,099	\$ -	\$ -
Actual return on plan assets	811,260	(280,681)	-	-
Contributions by reporting entity	396,415	374,198	79,470	89,106
Contributions by participants	-	-	23,397	22,671
Benefits paid	<u>(171,345)</u>	<u>(962,348)</u>	<u>(102,867)</u>	<u>(111,777)</u>
Fair value of plan assets, end of year	<u>\$ 4,844,598</u>	<u>\$ 3,808,268</u>	<u>\$ -</u>	<u>\$ -</u>

The reconciliation of the funded status to the net amount recognized at December 31, 2019 and 2018 is as follows:

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Funded status:				
Components:				
Accrued benefit costs	\$ (1,180,602)	\$ (1,087,132)	\$ (4,676,354)	\$ (4,555,543)
Liability for benefits	<u>(2,957,252)</u>	<u>(2,001,368)</u>	<u>(917,595)</u>	<u>68,510</u>
Assets and liabilities recognized:				
Liabilities recognized	<u>\$ (4,137,854)</u>	<u>\$ (3,088,500)</u>	<u>\$ (5,593,949)</u>	<u>\$ (4,487,033)</u>

North Carolina Insurance Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note K - Employee Benefit Plans (Continued)

The liability for the underfunded status for pension and postretirement benefits is included in pension and postretirement benefit obligation on the statutory balance sheets as of December 31, 2019 and 2018, respectively.

The components of net periodic benefit costs at December 31, 2019 and 2018, are as follows:

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Components of net periodic benefit costs:				
Service cost	\$ 408,847	\$ 475,074	\$ 285,257	\$ 373,803
Interest cost	271,832	273,121	177,181	190,097
Expected return on plan assets	(215,099)	(295,848)	-	-
Recognized actuarial losses (gains)	100,633	139,652	(21,362)	10,153
Amortization of prior service cost	<u>(38)</u>	<u>(41)</u>	<u>78,893</u>	<u>161,862</u>
Net periodic benefit cost	<u>\$ 566,175</u>	<u>\$ 591,958</u>	<u>\$ 519,969</u>	<u>\$ 735,915</u>

The amounts in unassigned funds (surplus) recognized as components of net periodic benefit cost at December 31, 2019 and 2018, are as follows:

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Items not yet recognized as a component of net periodic cost - prior year	\$ 1,939,357	\$ 2,258,267	\$ (504,775)	\$ 911,633
Net transition asset or obligation recognized	-	(210,329)	-	-
Net prior service cost or credit recognized	38	41	(78,893)	(161,862)
Net (gain) loss arising during the period	(100,633)	(139,652)	21,362	(10,153)
Net gain and loss recognized	<u>980,189</u>	<u>31,030</u>	<u>723,948</u>	<u>(1,244,393)</u>
Items not yet recognized as a component of net periodic cost - current year	<u>\$ 2,818,951</u>	<u>\$ 1,939,357</u>	<u>\$ 161,642</u>	<u>\$ (504,775)</u>

North Carolina Insurance Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note K - Employee Benefit Plans (Continued)

Estimated future benefit payments under the pension plan and postretirement plan as of December 31, 2019, which reflect expected future service, are as follows for years following December 31, 2019:

Year Ending December 31:	Pension Plan	Postretirement Plan
2020	\$ 138,304	\$ 92,002
2021	159,524	120,155
2022	187,012	145,886
2023	218,647	179,528
2024	250,724	213,795
2025 - 2029	1,790,167	1,328,337

Future benefit payments are estimated based on the same assumptions used to measure the benefit obligations of the plans as of December 31, 2019 and include estimated future employee service.

The following table presents the assumptions used in determining the benefit obligation for the pension plan and the accumulated postretirement benefit obligation as of December 31, 2019 and 2018:

	Pension Benefits		Postretirement Benefits	
	2019	2018	2019	2018
Weighted-average assumptions used in computing ending obligations:				
Discount rate	3.75%	4.50%	3.75%	4.50%
Rate of compensation increase	3.50%	3.50%	N/A	N/A
Weighted-average assumptions used in computing net cost:				
Discount rate	4.50%	3.75%	4.50%	3.75%
Rate of compensation increase	3.50%	3.50%	N/A	N/A
Expected return on plan assets	6.50%	6.75%	N/A	N/A
Assumed health care cost trends rate:				
Health care cost trend rate assumed for next year	N/A	N/A	6.25%	6.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	N/A	N/A	4.50%	4.50%
Year that the rate reached the ultimate trend rate	N/A	N/A	2026	2023

North Carolina Insurance Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note K - Employee Benefit Plans (Continued)

The discount rate is determined each year as of the measurement date based on a review of interest rates associated with long-term high-quality corporate bonds. The discount rate is used in calculating the benefit obligation as of the measurement date and the net periodic benefit (income)/cost for the upcoming plan year.

The expected long-term return on assets is based on an evaluation of the historical behavior of the broad financial markets and the Association's investment portfolio, taking into consideration input from the plan's investment consultants and actuaries regarding expected long-term market conditions and investment management performance.

Amortization of the net gain or loss resulting from experience different from that assumed and from changes in assumptions is included as a component of net periodic benefit cost (income) for a year.

Plan Assets

The members of the pension plan participate in a multiple-employer pension trust, IOPT. Plan assets are held in a single trust for all employers who participate in the plan. Each year, assets are allocated to the Association based on its historical contributions, benefit disbursements and share of investment return.

The asset allocation for the pension plan at the end of the Association's fiscal year, and the on-going target allocation, by asset category, follows:

	<u>Target</u>	<u>As of December 31, 2019</u>	<u>Target</u>	<u>As of December 31, 2018</u>
Asset category:				
Equity securities	50.0%	50.7%	50.0%	47.4%
Debt securities	50.0%	48.5%	50.0%	51.8%
Cash	<u>0.0%</u>	<u>0.8%</u>	<u>0.0%</u>	<u>0.8%</u>
Total	<u><u>100.0%</u></u>	<u><u>100.0%</u></u>	<u><u>100.0%</u></u>	<u><u>100.0%</u></u>

The pension plan's investment policy is set by the Trustees of the IOPT. The expected rate of return on plan assets was determined based on the average rate of return expected to be earned on the current and target asset categories.

North Carolina Insurance Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note K - Employee Benefit Plans (Continued)

The following table summarizes the pension plan assets' fair value measurements at December 31, 2019 and 2018:

	2019				
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Net Asset Value (NAV)	Total Fair Value
Equity securities (a)	\$ -	\$ -	\$ -	\$ 2,456,212	\$ 2,456,212
Debt securities (a)	-	-	-	2,349,630	2,349,630
Cash (b)	-	-	-	38,756	38,756
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,844,598</u>	<u>\$ 4,844,598</u>

	2018				
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Net Asset Value (NAV)	Total Fair Value
Equity securities (a)	\$ -	\$ -	\$ -	\$ 1,805,120	\$ 1,805,120
Debt securities (a)	-	-	-	1,972,682	1,972,682
Cash (b)	-	-	-	30,466	30,466
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,808,268</u>	<u>\$ 3,808,268</u>

- (a) Equity and debt securities consist of common collective funds which are valued at net asset value (NAV), as a practical expedient to measure fair value, based on the fair value of the underlying investments.
- (b) Cash consists of money market funds, which are valued at NAV of shares held by the pension plan at year end.

The collective investment funds have no unfunded commitments. The Plan Administrator may withdraw money from the funds daily; however, they may be required to give a one year notice prior to redemption if the collective fund is invested primarily in assets that are not readily marketable. Short term investment funds have no unfunded commitments. The Plan Administrator may withdraw money from the funds daily; however, they may be required to give a 15 day notice prior to redemption. These funds are invested in a variety of debt and equity instruments, with a goal of providing resources to be available as payouts are required.

Cash Flows

The Association expects to contribute approximately \$543,000 to its pension plan and approximately \$92,000 to its postretirement benefit plan in 2020.

North Carolina Insurance Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note K - Employee Benefit Plans (Continued)

Defined Contribution Plan

The Association also offers an Employee Savings Plan to employees working at least 1,000 hours in a year. This plan is offered through a single employer arrangement with the Association matching 100% of employee contributions up to 6% of the employees' earnings. The employee is 100% vested in his or her contributions and earnings. The employee is 100% vested in the Association's contributions after completing three years of service. The Association's expense for the years ended December 31, 2019 and 2018, was \$211,540 and \$239,954 respectively.

Note L - EDP Equipment, Software and Other Fixed Assets

The major components of EDP equipment, software and other fixed assets as of December 31, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
EDP equipment and software	\$ 21,311,509	\$ 21,311,509
Furniture and fixtures	<u>579,105</u>	<u>126,272</u>
Sub-total	21,890,614	21,437,781
Less: Accumulated depreciation	(14,256,212)	(7,674,433)
Less: Non-admitted items	<u>(579,105)</u>	<u>(126,272)</u>
EDP equipment and software, net	<u>\$ 7,055,297</u>	<u>\$ 13,637,076</u>

Depreciation expense for the years ended December 31, 2019 and 2018 was \$6,581,779 and \$6,169,431, respectively.

North Carolina Insurance Underwriting Association

Reinsurance Summary Supplemental
Filing for General Interrogatory 9

As of December 31, 2019, the Association's reinsurance program does not include any contracts with risk limiting features identified in paragraphs 114 through 119 of Statement of Statutory Accounting Principle No. 62R¹, *Property and Casualty Reinsurance*.

¹ This statement applies to all reinsurance contracts entered into, renewed or amended on or after January 1, 1994.



SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For the year ended December 31, 2019

(To be filed by April 1)

Of North Carolina Insurance Underwriting Association

Address (City, State, Zip Code): Raleigh NC 27607

NAIC Group Code.....0

NAIC Company Code.....00000

Employer's ID Number.....23-7102759

The Investment Risks Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements.

Answer the following interrogatories by reporting the applicable U.S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement. \$.....851,036,289

2. Ten largest exposures to a single issuer/borrower/investment.

	1	2	3	4
	<u>Issuer</u>	<u>Description of Exposure</u>	<u>Amount</u>	<u>Percentage of Total Admitted Assets</u>
2.01	Federal National Mortgage Association.....	MBS	\$.....33,471,825	.....3.9 %
2.02	Chevron Corporation.....	Bonds	\$.....17,031,682	.....2.0 %
2.03	UnitedHealth Group Incorporated.....	Bonds	\$.....15,541,899	.....1.8 %
2.04	UBS-Citigroup Commercial Mortgage Trust 2011-C1.....	MBS	\$.....15,131,539	.....1.8 %
2.05	Microsoft Corporation.....	Bonds	\$.....14,994,412	.....1.8 %
2.06	Huntington Bancshares Incorporated.....	Bonds	\$.....13,720,174	.....1.6 %
2.07	Fidelity National Information Services, Inc.....	Bonds	\$.....13,674,353	.....1.6 %
2.08	Intercontinental Exchange, Inc.....	Bonds	\$.....13,638,533	.....1.6 %
2.09	Ford Motor Credit Company LLC.....	Bonds	\$.....13,461,097	.....1.6 %
2.10	Apple Inc.....	Bonds	\$.....13,061,137	.....1.5 %

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC designation.

		1	2
<u>Bonds</u>			
3.01	NAIC 1.....	\$...635,765,107	.....74.7 %
3.02	NAIC 2.....	\$...121,397,809	.....14.3 %
3.03	NAIC 3.....	\$.....	.....0.0 %
3.04	NAIC 4.....	\$.....	.....0.0 %
3.05	NAIC 5.....	\$.....	.....0.0 %
3.06	NAIC 6.....	\$.....	.....0.0 %
<u>Preferred Stocks</u>			
3.07	P/RP-1.....	\$.....	.....0.0 %
3.08	P/RP-2.....	\$.....	.....0.0 %
3.09	P/RP-3.....	\$.....	.....0.0 %
3.10	P/RP-4.....	\$.....	.....0.0 %
3.11	P/RP-5.....	\$.....	.....0.0 %
3.12	P/RP-6.....	\$.....	.....0.0 %

4. Assets held in foreign investments:

4.01	Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets?	Yes [X]	No []
If response to 4.01 above is yes, responses are not required for interrogatories 5-10.			
4.02	Total admitted assets held in foreign investments	\$.....	.....0.0 %
4.03	Foreign-currency-denominated investments	\$.....	.....0.0 %
4.04	Insurance liabilities denominated in that same foreign currency	\$.....	.....0.0 %

5. Aggregate foreign investment exposure categorized by NAIC sovereign designation:

		1	2
5.01	Countries designated NAIC 1.....	\$.....	.....0.0 %
5.02	Countries designated NAIC 2.....	\$.....	.....0.0 %
5.03	Countries designated NAIC 3 or below.....	\$.....	.....0.0 %

6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign designation:

		1	2
Countries designated NAIC 1:			
6.01	Country 1: .....	\$.....	.....0.0 %
6.02	Country 2: .....	\$.....	.....0.0 %
Countries designated NAIC 2:			
6.03	Country 1: .....	\$.....	.....0.0 %
6.04	Country 2: .....	\$.....	.....0.0 %
Countries designated NAIC 3 or below:			
6.05	Country 1: .....	\$.....	.....0.0 %
6.06	Country 2: .....	\$.....	.....0.0 %

7. Aggregate unhedged foreign currency exposure..... \$.....0.0 %

8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign designation:	1	2
8.01 Countries designated NAIC 1.....	\$.....	0.0 %
8.02 Countries designated NAIC 2.....	\$.....	0.0 %
8.03 Countries designated NAIC 3 or below.....	\$.....	0.0 %

9. Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign designation:		
Countries designated NAIC 1:	1	2
9.01 Country 1:	\$.....	0.0 %
9.02 Country 2:	\$.....	0.0 %
Countries designated NAIC 2:		
9.03 Country 1:	\$.....	0.0 %
9.04 Country 2:	\$.....	0.0 %
Countries designated NAIC 3 or below:		
9.05 Country 1:	\$.....	0.0 %
9.06 Country 2:	\$.....	0.0 %

10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:				
	1	2	3	4
	<u>Issuer</u>	<u>NAIC Designation</u>		
10.01			\$.....	0.0 %
10.02			\$.....	0.0 %
10.03			\$.....	0.0 %
10.04			\$.....	0.0 %
10.05			\$.....	0.0 %
10.06			\$.....	0.0 %
10.07			\$.....	0.0 %
10.08			\$.....	0.0 %
10.09			\$.....	0.0 %
10.10			\$.....	0.0 %

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:		
11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets?		Yes [X] No []
If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.		
11.02 Total admitted assets held in Canadian Investments.....	\$.....	0.0 %
11.03 Canadian currency-denominated investments.....	\$.....	0.0 %
11.04 Canadian-denominated insurance liabilities.....	\$.....	0.0 %
11.05 Unhedged Canadian currency exposure.....	\$.....	0.0 %

12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions.		
12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets?		Yes [X] No []
If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.		
12.02 Aggregate statement value of investments with contractual sales restrictions.....	1	2
Largest three investments with contractual sales restrictions:	3	3
12.03	\$.....	0.0 %
12.04	\$.....	0.0 %
12.05	\$.....	0.0 %

13. Amounts and percentages of admitted assets held in the ten largest equity interests:		
13.01 Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets?		Yes [X] No []
If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.		
	1	2
	<u>Name of Issuer</u>	3
13.02	\$.....	0.0 %
13.03	\$.....	0.0 %
13.04	\$.....	0.0 %
13.05	\$.....	0.0 %
13.06	\$.....	0.0 %
13.07	\$.....	0.0 %
13.08	\$.....	0.0 %
13.09	\$.....	0.0 %
13.10	\$.....	0.0 %
13.11	\$.....	0.0 %

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:		
14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets?		Yes [X] No []
If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.		
14.02 Aggregate statement value of investments held in nonaffiliated, privately placed equities.....	1	2
Largest three investments held in nonaffiliated, privately placed equities:	3	3
14.03	\$.....	0.0 %
14.04	\$.....	0.0 %
14.05	\$.....	0.0 %

Ten Largest Fund Managers

	1	2	3	4
	<u>Fund Manager</u>	<u>Total Invested</u>	<u>Diversified</u>	<u>Non-Diversified</u>
14.06	\$.....	\$.....	\$.....
14.07	\$.....	\$.....	\$.....
14.08	\$.....	\$.....	\$.....
14.09	\$.....	\$.....	\$.....
14.10	\$.....	\$.....	\$.....
14.11	\$.....	\$.....	\$.....
14.12	\$.....	\$.....	\$.....
14.13	\$.....	\$.....	\$.....
14.14	\$.....	\$.....	\$.....
14.15	\$.....	\$.....	\$.....

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []
 If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15.

	1	2	3
15.02	Aggregate statement value of investments held in general partnership interests.....	\$.....	0.0 %
	Largest three investments in general partnership interests:		
15.03	.....	\$.....	0.0 %
15.04	.....	\$.....	0.0 %
15.05	.....	\$.....	0.0 %

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:

16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []
 If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

	1	2	3
	<u>Type (Residential, Commercial, Agricultural)</u>		
16.02	\$.....	0.0 %
16.03	\$.....	0.0 %
16.04	\$.....	0.0 %
16.05	\$.....	0.0 %
16.06	\$.....	0.0 %
16.07	\$.....	0.0 %
16.08	\$.....	0.0 %
16.09	\$.....	0.0 %
16.10	\$.....	0.0 %
16.11	\$.....	0.0 %

Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:

	<u>Loans</u>
16.12	Construction loans..... \$..... 0.0 %
16.13	Mortgage loans over 90 days past due..... \$..... 0.0 %
16.14	Mortgage loans in the process of foreclosure..... \$..... 0.0 %
16.15	Mortgage loans foreclosed..... \$..... 0.0 %
16.16	Restructured mortgage loans..... \$..... 0.0 %

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

<u>Loan-to-Value</u>	<u>Residential</u>		<u>Commercial</u>		<u>Agricultural</u>	
	1	2	3	4	5	6
17.01	above 95%.....	\$..... 0.0 %	\$.....	0.0 %	\$.....	0.0 %
17.02	91% to 95%.....	\$..... 0.0 %	\$.....	0.0 %	\$.....	0.0 %
17.03	81% to 90%.....	\$..... 0.0 %	\$.....	0.0 %	\$.....	0.0 %
17.04	71% to 80%.....	\$..... 0.0 %	\$.....	0.0 %	\$.....	0.0 %
17.05	below 70%.....	\$..... 0.0 %	\$.....	0.0 %	\$.....	0.0 %

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:

18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []
 If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

Largest five investments in any one parcel or group of contiguous parcels of real estate:

	<u>Description</u>	2	3
18.02	\$.....	0.0 %
18.03	\$.....	0.0 %
18.04	\$.....	0.0 %
18.05	\$.....	0.0 %
18.06	\$.....	0.0 %

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans.

19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's admitted assets? Yes [X] No []

If response to 19.01 is yes, responses are not required for the remainder of Interrogatory 19.

	1	2	3
19.02 Aggregate statement value of investments held in mezzanine real estate loans		\$.....	.....0.0 %
Largest three investments held in mezzanine real estate loans:			
19.03 .....		\$.....	.....0.0 %
19.04 .....		\$.....	.....0.0 %
19.05 .....		\$.....	.....0.0 %

20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

	<u>At Year-End</u>		<u>At End of Each Quarter</u>		
	1	2	<u>1st Qtr</u> 3	<u>2nd Qtr</u> 4	<u>3rd Qtr</u> 5
20.01 Securities lending agreements (do not include assets held as collateral for such transactions).....	\$.....	.....0.0 %	\$.....	\$.....	\$.....
20.02 Repurchase agreements.....	\$.....	.....0.0 %	\$.....	\$.....	\$.....
20.03 Reverse repurchase agreements.....	\$.....	.....0.0 %	\$.....	\$.....	\$.....
20.04 Dollar repurchase agreements.....	\$.....	.....0.0 %	\$.....	\$.....	\$.....
20.05 Dollar reverse repurchase agreements.....	\$.....	.....0.0 %	\$.....	\$.....	\$.....

21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps and floors:

	<u>Owned</u>		<u>Written</u>	
	1	2	3	4
21.01 Hedging.....	\$.....	.....0.0 %	\$.....	.....0.0 %
21.02 Income generation.....	\$.....	.....0.0 %	\$.....	.....0.0 %
21.03 Other.....	\$.....	.....0.0 %	\$.....	.....0.0 %

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

	<u>At Year-End</u>		<u>At End of Each Quarter</u>		
	1	2	<u>1st Qtr</u> 3	<u>2nd Qtr</u> 4	<u>3rd Qtr</u> 5
22.01 Hedging.....	\$.....	.....0.0 %	\$.....	\$.....	\$.....
22.02 Income generation.....	\$.....	.....0.0 %	\$.....	\$.....	\$.....
22.03 Replications.....	\$.....	.....0.0 %	\$.....	\$.....	\$.....
22.04 Other.....	\$.....	.....0.0 %	\$.....	\$.....	\$.....

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:

	<u>At Year-End</u>		<u>At End of Each Quarter</u>		
	1	2	<u>1st Qtr</u> 3	<u>2nd Qtr</u> 4	<u>3rd Qtr</u> 5
23.01 Hedging.....	\$.....	.....0.0 %	\$.....	\$.....	\$.....
23.02 Income generation.....	\$.....	.....0.0 %	\$.....	\$.....	\$.....
23.03 Replications.....	\$.....	.....0.0 %	\$.....	\$.....	\$.....
23.04 Other.....	\$.....	.....0.0 %	\$.....	\$.....	\$.....

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
	1 Amount	2 Percentage of Column 1 Line 13	3 Amount	4 Securities Lending Reinvested Collateral Amount	5 Total (Col. 3 + 4) Amount	6 Percentage of Column 5 Line 13
1. Long-Term Bonds (Schedule D, Part 1):						
1.01 U.S. Governments.....	158,156,641	19.3	158,156,641		158,156,641	19.3
1.02 All Other Governments.....		0.0			0	0.0
1.03 U.S. States, Territories and Possessions, etc., Guaranteed.....		0.0			0	0.0
1.04 U.S. Political Subdivisions of States, Territories and Possessions, Guaranteed.....		0.0			0	0.0
1.05 U.S. Special Revenue and Special Assessment Obligations, etc., Non-Guaranteed.....	55,591,360	6.8	55,591,360		55,591,360	6.8
1.06 Industrial and Miscellaneous.....	543,414,915	66.4	543,414,915		543,414,915	66.4
1.07 Hybrid Securities.....		0.0			0	0.0
1.08 Parent, Subsidiaries and Affiliates.....		0.0			0	0.0
1.09 SVO Identified Funds.....		0.0			0	0.0
1.10 Unaffiliated Bank Loans.....		0.0			0	0.0
1.11 Total Long-Term Bonds.....	757,162,916	92.6	757,162,916	0	757,162,916	92.6
2. Preferred Stocks (Schedule D, Part 2, Section 1):						
2.01 Industrial and Misc. (Unaffiliated).....		0.0			0	0.0
2.02 Parent, Subsidiaries and Affiliates.....		0.0			0	0.0
2.03 Total Preferred Stock.....	0	0.0	0	0	0	0.0
3. Common Stocks (Schedule D, Part 2, Section 2):						
3.01 Industrial and Miscellaneous Publicly Traded (Unaffiliated).....		0.0			0	0.0
3.02 Industrial and Miscellaneous Other (Unaffiliated).....		0.0			0	0.0
3.03 Parent, Subsidiaries and Affiliates Publicly Traded.....		0.0			0	0.0
3.04 Parent, Subsidiaries and Affiliates Other.....		0.0			0	0.0
3.05 Mutual Funds.....		0.0			0	0.0
3.06 Unit Investment Trusts.....		0.0			0	0.0
3.07 Closed-End Funds.....		0.0			0	0.0
3.08 Total Common Stocks.....	0	0.0	0	0	0	0.0
4. Mortgage Loans (Schedule B):						
4.01 Farm Mortgages.....		0.0			0	0.0
4.02 Residential Mortgages.....		0.0			0	0.0
4.03 Commercial Mortgages.....		0.0			0	0.0
4.04 Mezzanine Real Estate Loans.....		0.0			0	0.0
4.05 Total Mortgage Loans.....	0	0.0	0	0	0	0.0
5. Real Estate (Schedule A):						
5.01 Properties Occupied by Company.....		0.0			0	0.0
5.02 Properties Held for Production of Income.....		0.0			0	0.0
5.03 Properties Held for Sale.....		0.0			0	0.0
5.04 Total Real Estate.....	0	0.0	0	0	0	0.0
6. Cash, Cash Equivalents, and Short-Term Investments::						
6.01 Cash (Schedule E, Part 1).....	47,934,732	5.9	47,934,732		47,934,732	5.9
6.02 Cash Equivalents (Schedule E, Part 2).....	12,739,718	1.6	12,739,718		12,739,718	1.6
6.03 Short-Term Investments (Schedule DA).....		0.0			0	0.0
6.04 Total Cash, Cash Equivalents, and Short-Term Investments.....	60,674,450	7.4	60,674,450	0	60,674,450	7.4
7. Contract Loans.....		0.0			0	0.0
8. Derivatives (Schedule DB).....		0.0			0	0.0
9. Other Invested Assets (Schedule BA).....		0.0			0	0.0
10. Receivables for Securities.....		0.0			0	0.0
11. Securities Lending (Schedule DL, Part 1).....		0.0		XXX	XXX	XXX
12. Other Invested Assets (Page 2, Line 11).....		0.0			0	0.0
13. Total Invested Assets.....	817,837,366	100.0	817,837,366	0	817,837,366	100.0