

North Carolina Insurance Underwriting Association

Statutory Financial Statements and Supplemental Schedules
(with Independent Auditor's Report Thereon)
December 31, 2013

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Independent Auditor's Report

The Board of Directors
North Carolina Insurance Underwriting Association
Cary, North Carolina

Report on the Financial Statements

We have audited the accompanying statutory financial statements of North Carolina Insurance Underwriting Association (Association), which comprise the statutory statement of admitted assets, liabilities, and surplus of North Carolina Insurance Underwriting Association as of December 31, 2013, and the related statutory statements of operations and changes in surplus, and cash flows for the year then ended and the related notes to the statutory financial statements.

Management's Responsibility for the Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statutory 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 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 entity's internal control. 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 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 1 to the statutory financial statements, North Carolina Insurance Underwriting Association prepared these 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. The effects on the financial statements of the variances between these statutory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

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 financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of North Carolina Insurance Underwriting Association as of December 31, 2013, or the results of its operations or its cash flows for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the statutory financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and surplus of North Carolina Insurance Underwriting Association as of December 31, 2013, and the results of its operations and its cash flows for the year then ended, on the basis of accounting described in Note 1.

Report on the Supplemental Schedules

Our audit was conducted for the purpose of forming an opinion on the basic statutory financial statements taken as a whole. The accompanying Summary Investment Schedule as of December 31, 2013 and Supplemental Investment Risks and Reinsurance Interrogatories as of December 31, 2013 and for the year then ended (Supplemental Schedules) are presented for purposes of additional analysis and are not a required part of the basic statutory financial statements. 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 financial statements. The effects on the Supplemental Schedules of the variances between the statutory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, is presumed to be material. As a consequence, the Supplemental Schedules do not present fairly, in conformity with accounting principles generally accepted in the United States of America, such information of the Association as of December 31, 2013 and for the year then ended. The Supplemental Schedules have been subjected to the auditing procedures applied in the audit of the statutory 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 financial statements or to the statutory financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Schedules are fairly stated in all material respects in relation to the statutory financial statements taken as a whole.

McGladrey LLP

Raleigh, North Carolina
May 8, 2014

North Carolina Insurance Underwriting Association

**Statutory Statement of Admitted Assets, Liabilities, and Surplus
December 31, 2013**

Admitted Assets

Cash and short-term investments	\$ 245,632,212
Bonds, at prescribed value	791,748,206
Cash and invested assets	<u>1,037,380,418</u>
Interest income due and accrued	5,407,628
Premiums receivables	22,564,304
Data processing equipment, at cost less accumulated depreciation of \$662,337 in 2013	210,420
Total admitted assets	<u><u>\$ 1,065,562,770</u></u>

Liabilities and Surplus

Liabilities	
Unpaid losses	\$ 7,927,381
Unpaid loss adjustment expenses	882,656
Net due to North Carolina Joint Underwriting Association	776,197
Deferred revenue	193,875,328
Advance premiums	14,517,176
Accounts payable and accrued expenses	6,129,648
Total liabilities	<u>224,108,386</u>
Commitments and Contingencies	
Surplus	<u>841,454,384</u>
Total liabilities and surplus	<u><u>\$ 1,065,562,770</u></u>

See Notes to Statutory Financial Statements.

North Carolina Insurance Underwriting Association

Statutory Statement of Operations and Changes in Surplus
Year Ended December 31, 2013

Direct premiums written	\$ 385,773,364
Change in unearned premiums	(21,403,360)
Ceded reinsurance premiums	(182,041,021)
Net earned premiums	<u>182,328,983</u>
Underwriting Expenses	
Losses incurred	14,788,256
Loss adjustment expenses incurred	7,063,048
Commissions	50,348,757
Salaries and benefits	4,468,950
Insurance taxes, licenses and fees	11,096,498
Other underwriting expenses	3,285,510
Total underwriting deductions	<u>91,051,019</u>
Net underwriting gain	91,277,964
Other Income	329,622
Investment Income	13,944,947
Net income	<u>105,552,533</u>
Surplus	
Beginning	736,128,343
Change in minimum pension liability	568,719
Escheatment to State	(117,762)
Change in unrealized gain (loss)	212,200
Distributions to members	(635,478)
Change in nonadmitted assets	(254,171)
Ending	<u>\$ 841,454,384</u>

See Notes to Statutory Financial Statements.

North Carolina Insurance Underwriting Association

Statutory Statements of Cash Flows
Year Ended December 31, 2013

Cash Flows from Operations	
Premiums collected net of reinsurance	\$ 203,030,826
Losses and loss adjustment expenses paid	(16,869,486)
Net interest income	20,515,215
Underwriting expenses paid	(76,092,297)
Net cash provided by operations	<u>130,584,258</u>
Cash Flows from Investments	
Cost of long-term investments acquired:	
Bonds and other debt instruments	133,584,095
Proceeds from investments sold, matured or repaid:	
Bonds and other debt instruments	(254,964,970)
Net cash used in investments	<u>(121,380,875)</u>
Cash Flows from Financing and Miscellaneous Sources	
Other	717,460
Net cash provided by financing and miscellaneous sources	<u>717,460</u>
Net increase in cash and short-term investments	9,920,843
Cash and Short-Term Investments	
Beginning	<u>235,711,369</u>
Ending	<u>\$ 245,632,212</u>

See Notes to Statutory Financial Statements.

North Carolina Insurance Underwriting Association

Notes to Statutory Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies

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 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 an adequate market for essential 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, who remit new business premiums directly to the Association.

Because the Association only writes business 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 who are authorized to write and engage in writing essential property insurance in North Carolina on a direct basis, except town and county 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. In the event that losses and expenses of the Association exceed available surplus, reinsurance and other sources of funding, 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 event or series of 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 Association's Board of Directors) generally is due from the Member Insurers within thirty days of assessment.

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 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.

A summary of the Association's significant accounting policies is as follows:

Risk and Uncertainties: Certain risks and uncertainties are inherent in the Association's day to day operations and to the process of preparing its statutory financial statements. The more significant of those risks and uncertainties are presented below and throughout the notes to the statutory financial statements.

Estimates: The preparation of the statutory financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statutory financial statements 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 Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Loss reserves: The Association estimates loss and loss adjustment expenses after consultation with the Association's independent actuary. These amounts are recorded net of estimated recoveries for reinsurance ceded. Actual results could differ from these estimates.

Reinsurance: Reinsurance contracts do not relieve the Association from its obligations to reinsureds. Failure of reinsurers to honor their obligations could result in losses to the Association; consequently, allowances are established for amounts deemed to be uncollectible, when necessary. The Association evaluates the financial condition of its reinsurers to minimize exposure to significant losses from reinsurer insolvencies. Management believes that any liabilities arising from this contingency would not be material to the Association's financial position.

Risk-based capital: The NAIC has developed property-casualty risk-based capital (RBC) standards that relate an insurer's reported statutory surplus to the risks inherent in its overall operations. The RBC formula uses the statutory annual statement to calculate the minimum indicated capital level to protect the Association from the various risks that it faces. The NAIC model law calls for various levels of regulatory action based on the magnitude of an indicated RBC capital deficiency, if any. The Association continues to monitor its internal capital requirements and the NAIC's RBC requirements. The Association has determined that its capital levels are in excess of the minimum capital requirements for all RBC action levels. Management believes that the Association's capital levels are sufficient to support the level of risk inherent in its operations.

Investments: The Association is exposed to risks that issuers of securities owned by the Association will default or that interest rates will change and cause a decrease in the value of the Association's investments. With Federal mortgage-backed securities, the Association is exposed to prepayment risk. As interest rates decline, the rate at which these securities pay down principal will generally increase.

Management mitigates these risks by conservatively investing in high-grade securities and by matching estimated maturities of its investments with the anticipated payouts of its liabilities.

Basis of Presentation: At the direction of the Commissioner of Insurance of the State of North Carolina, the Association presents its financial statements on the basis of accounting practices prescribed or permitted by the North Carolina Department of Insurance. The State of North Carolina has adopted the National Association of Insurance Commissioners' (NAIC) statutory accounting practices (SAP) as the basis of its statutory accounting practices.

In addition, the Commissioner of the North Carolina Department of Insurance has the right to permit other specific practices that may deviate from prescribed practices. The Association, through discussions with the North Carolina Department of Insurance (NCDOI), changed its fiscal year to a more traditional calendar year-end. In order to effect this change, the NCDOI has approved the Association's preparing single year ended December 31, 2013 statutory financial statements. Going forward, the Association will be preparing its statutory financial statements on a traditional calendar year end. There are no deviations from the NAIC Accounting Practices and Procedures Manual in the Association's financial statements.

North Carolina Insurance Underwriting Association

Notes to Statutory Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Basis of Presentation (Continued):

Accounting practices and procedures of the NAIC as prescribed or permitted by the insurance department of the applicable state of an insurance company's domicile comprise a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). The more significant differences between NAIC practices (SAP) and GAAP are as follows:

- Investments in bonds and other debt instruments are generally reported at amortized cost, unless required to be reported at fair value by NAIC regulations. Under GAAP, investments in debt securities are designated at purchase as held-to-maturity, trading securities, or available-for-sale. Held-to-maturity debt securities are reported at amortized cost, less applicable valuation allowances, and other debt securities are reported at fair value under GAAP. For debt securities designated as trading, unrealized holding gains and losses are reported in operations and for those designated as available-for-sale, unrealized holding gains and losses are reported as a separate component of equity under GAAP.
- For loan-backed and structured securities, if the Association determines that it intends to sell a security or no longer has the ability and intent to retain the investment for a period of time sufficient to recover the amortized cost, that security shall be written down to fair value. For statutory purposes, if the Association subsequently changes its assertion, and now believes it does not intend to sell the security and has the ability and intent to retain the investment for a period of time sufficient to recover the amortized cost, that security will continue to be carried at the lower of cost or market with any future decreases in fair value charged through operations until the security is disposed. For GAAP purposes, once the Association alters its assertion, the securities' amortized cost basis will not be decreased for future reductions in fair value unless another than temporary impairment is determined to have occurred.
- For GAAP purposes, other-than-temporary impairment losses (related to non loan-backed and structured securities) related to debt securities are bifurcated between credit and non-credit with credit losses reported in operations and non-credit reported as a component of equity, whereas for statutory purposes the total other-than-temporary impairment loss is reported in operations.
- Commissions, premium taxes and other costs relating to the acquisition, issuance and renewal of policies are charged to operations as incurred. Under GAAP, such costs, to the extent recoverable, are deferred and amortized over the term of the policy.
- Certain assets, described as nonadmitted, are excluded by direct charges to surplus. In accordance with GAAP, such assets are recorded on the balance sheet, net of valuation allowances.
- Comprehensive income is not determined for SAP; whereas for GAAP, such income is determined.
- Assets and liabilities related to insurance and reinsurance activities are netted in financial statements prepared on the basis of SAP. Under GAAP, those assets and liabilities would be reported at their gross amounts.
- Under SAP, cash and short-term investments represent cash balances and investments with an initial maturity of one year or less. Under GAAP, the corresponding caption of cash and cash equivalents include cash balances and investments with an initial maturity of three months or less. Further, under GAAP, the statement of cash flows does not include reconciliations of net income to net cash from operations. In addition, the statement of cash flows includes short-term investments with original maturities of one year or less while under GAAP, the statement of cash flows includes securities with original maturities of three months or less.

North Carolina Insurance Underwriting Association

Notes to Statutory Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Cash and short-term investments: Cash constitutes a medium of exchange that a bank will accept for deposit and allow an immediate credit to the depositor's account. Also classified as cash for financial statement purposes, although not falling within the above description of cash, are cash equivalents such as savings accounts and certificates of deposit in banks and other similar institutions with maturity dates of three months or less from the date of acquisition. At times cash deposits with a financial institution may exceed federally insured limits. The Association has not experienced any credit losses related to such deposits and its management is not aware of any events or circumstances which would raise doubt about the ongoing solvency of the institution.

Investments with remaining maturities of one year or less at the time of acquisition (excluding those investments defined as cash equivalents above) are considered short-term investments. From time to time the Association holds investments in money market instruments that are reported in accordance with the guidance in the NAIC *Purposes and Procedures of the Securities Valuation Office (SVO)*, which is generally the reported net asset value.

Investments: Bonds are reported at amortized cost in the accompanying statutory financial statements. Amortization is computed using the scientific (interest) method. Prepayment assumptions for asset-backed securities were obtained from broker dealer survey values or internal estimates. Realized gains and losses on sales of investments are recognized in the statutory statements of operations on a specific-identification basis. Declines in fair value that are considered other-than-temporary are charged to realized losses and the cost of the investment is adjusted to estimated fair value in the period when the determination is made. In determining whether these losses are expected to be temporary, the Association considers severity of impairment, duration of impairment, forecasted market price recovery, and the intent and ability of the Association to hold the investment until the market price has recovered.

For loan-backed or structured securities, factors considered by management in determining whether another-than-temporary impairment exists include the Association's stated intent to not sell, the Association's ability to hold such investments until the fair value recovers, and the discounted cash flows of the security based on the yield at the date of acquisition. If the Association intends to sell or if the Association does not have the ability and intent to hold the security for a period of time sufficient to recover its amortized cost basis, an other-than-temporary impairment exists, and the security is written down to fair value with the amount of the write-down recorded as a realized loss. If the Association does not intend to sell the security and has the ability and intent to hold the security for a period of time sufficient to recover the amortized cost basis, the Association calculates the cash flows expected to be collected. In this calculation, the Association compares the present value of cash flows expected to be collected, discounted at the security's effective interest rate at date of purchase, to the amortized cost basis. If the present value of cash flows is less than the amortized cost basis, a realized loss is recorded for the difference. The present value of cash flows then becomes the new cost basis.

Accrued investment income: The Association nonadmits investment income due and accrued if amounts are over 90 days past due. As of December 31, 2013, the Association had no income due or accrued over 90 days past due.

Premiums in course of collection: The Association records premiums in course of collection at total unpaid balance, which approximates estimated fair value, net of any nonadmitted receivables. The Association determines past due status of individual accounts receivable based on the effective date of the policy and generally does not charge interest on past due amounts. Premiums that management believes to be ultimately not collectible are written off upon such determination. Any premiums considered to be past due 90 days or more are nonadmitted.

Data processing equipment: Data processing equipment is carried at cost less accumulated depreciation. The Association provides for depreciation on these assets using the straight-line method over three to five years. Depreciation expense was \$134,962 for the year ended December 31, 2013. Maintenance and repairs are charged to expense as incurred.

North Carolina Insurance Underwriting Association

Notes to Statutory Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Nonadmitted assets: Certain assets designated as nonadmitted assets have been charged directly to surplus. Amounts related to nonadmitted assets for the year ended December 31, 2013 are as follows:

Furniture and equipment, less accumulated depreciation of \$795,452 in 2013	\$ 127,442
Prepaid expenses	360,366
Accounts receivable, assessments	2,673
	<u>\$ 490,481</u>

Depreciation on nonadmitted assets (furniture and equipment) is computed by applying the straight-line method over the estimated useful lives of the related assets. Estimated lives are three to five years for furniture and equipment. This depreciation expense of \$29,410 for the year ended December 31, 2013, is reflected in the statement of operations and changes in surplus.

Reserves for losses and loss adjustment expenses: Unpaid losses and loss adjustment expenses include an amount determined from individual case estimates and loss reports and an amount, based on past experience, for losses incurred but not reported. Such liabilities are necessarily based on assumptions and estimates and, while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed and any adjustments are reflected in the period determined.

Establishing liabilities for claims is subject to significant uncertainties that make reserve estimation difficult. In establishing liabilities for claims, the Association considers all pertinent information as it becomes available and establishes incurred but not reported reserves where appropriate. Although the reserves are deemed adequate to cover all probable claims, there is a possibility that adverse development from prior accident years could occur in the future.

Estimates for catastrophic events are inherently more uncertain than those for non-catastrophic losses due to the unique circumstances involving a catastrophe. Due to the low frequency of historical catastrophic events, standard actuarial loss development methods are difficult to apply and may result in a wider range of estimates of ultimate catastrophic losses. Therefore, material changes to estimates related to these events are reasonably possible in the near term after these events occur and are reflected in operations as more information becomes available.

Reinsurance: Reinsurance premiums and liabilities related to reinsurance ceded are accounted for on a basis consistent with that used in accounting for the original policies issued by the Association and the terms of the reinsurance contracts. Premiums and losses on reinsurance ceded are reported as reductions of premiums earned and losses and loss adjustment expenses incurred, respectively, in the statutory statement of operations and changes in surplus.

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. Special assessments are also permitted for large unanticipated losses.

North Carolina Insurance Underwriting Association

Notes to Statutory Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Premiums and related commissions: Premiums are earned over the periods covered by the policies on a daily pro-rata basis. Unearned premium reserves are established to cover the unexpired portion of premiums written. Expenses incurred related to the acquisition of new insurance business, including such acquisition costs as commissions, premium taxes and other underwriting expenses, are charged to expense when incurred. When the Association receives premium payments from policyholders prior to the effective date of the related policy, the Association records an advance premiums liability. On the policy effective date, the Association reduces the advance premium liability and records written premium.

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 Internal Revenue Service in 2011, and the Association's exemption was reaffirmed.

Recently Adopted Accounting Pronouncements: In 2012, the NAIC adopted SSAP No. 102, *Accounting for Pension, a Replacement of SSAP 89*. SSAP 102 establishes financial accounting and reporting standards for an insurer that offers pension benefits to its employees. This statement supersedes the guidance in *SSAP No. 89, Accounting for Pensions, A Replacement of SSAP No. 89* and incorporates the guidance in Interpretation 99-26: *Offsetting Pension Assets and Liabilities*, Interpretation 01-16: *Measurement Date for SSAP No. 8 Actuarial Valuations*, Interpretation 04-03: *Clarification for Calculating the Additional Minimum Pension Liability under SSAP No. 89* and Interpretation 04-12: *Determining the Classification and Benefit Attribution Method for a Cash Balance Pension Plan*. This SSAP also modifies Interpretation 04-17: *Impact of Medicare Modernization on Postretirement Benefits* to remove reference to pensions as this interpretation only addresses postretirement benefits other than pensions. This statement was effective for reporting periods beginning on or after January 1, 2013 (transition date) with early adoption permitted.

Prior to SSAP 102, the accounting for pensions looked to the accumulative benefit obligation, whereas, under SSAP 102, if the projected benefit obligation (considering both vested and nonvested participants) exceeds the fair value of plan assets, the employer shall recognize in its statement of financial position a liability that equals the unfunded projected benefit obligation. If the fair value of plan assets exceeds the projected benefit obligation, the employer shall recognize in its statement of financial position an asset that equals the overfunded projected benefit obligation. This prepaid asset resulting from the excess of the fair value of plan assets over the projected benefit obligation shall be non-admitted. The Association adopted this standard on January 1, 2013 and did not elect the deferral option.

In 2012, the NAIC adopted SSAP No. 92, *Accounting for Postretirement Benefits Other Than Pensions, A Replacement of SSAP No. 14*. SSAP 92 applies to all postretirement benefits expected to be provided by an employer to current and former employees (including retirees, disabled employees, and other former employees who are expected to receive postretirement benefits), their beneficiaries, and covered dependents, pursuant to the terms of an employer's undertaking to provide those benefits. This statement supersedes the guidance in *SSAP No. 14, Postretirement Plans Other Than Pensions*, and incorporates the guidance in Interpretation 99-26: *Offsetting Pension Assets and Liabilities*, and Interpretation 01-16: *Measurement Date for SSAP No. 8 Actuarial Valuations*.

This statement was effective for reporting periods beginning on or after January 1, 2013 (transition date) with early adoption permitted. The status for each plan shall be measured as the difference between the fair value of plan assets and the accumulated postretirement benefit obligation (considering both vested and non-vested employees) as it is defined in this statement. Gains or losses, prior service costs or credits (including prior service costs for non-vested participants), and remaining transition assets or obligations (collectively referred to as "unrecognized items") from prior application of SSAP No. 14 that have not yet been included in net periodic benefit cost as of December 31, 2012 shall be recognized as

North Carolina Insurance Underwriting Association

Notes to Statutory Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

components of the ending balance of unassigned funds (surplus) as of January 1, 2013, or later if an alternative method of adoption is elected. After recognition, the full unfunded or overfunded status or the plan shall be reflected within the statutory financial statements. Any prepaid asset resulting from an overfunded plan shall be non-admitted. The Association did not elect the deferral option and therefore the full impact of the adoption is included within these financial statements.

Note 2. Significant Increased Exposure to Coastal Properties

The Association has continued to experience continued growth in both policy count and exposure. During 2013, policy count increased 5.8% to 235,764 and aggregate exposure increased 7.4% to \$90.1 billion.

In the event of losses and expenses to the Association exceeding available surplus, reinsurance, and other sources of funding of Association losses, the Association is authorized to issue a non-recoupable assessment upon its members in accordance with its Plan of Operation. Member Insurer assessments shall not exceed one billion dollars (\$1,000,000,000) for losses incurred from any event or series of events that occur in a given calendar year, regardless of when such assessments are actually levied on or collected from member companies. Any assessment levied on Member Insurers by the Association (as ordered by the Association's Board of Directors) generally is due from the Member Insurers within thirty days of assessment.

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, then 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 3. Bonds

Amortized cost (admitted amount), aggregate fair value and gross unrealized gains and losses pertaining to the portfolio of bonds as of December 31, 2013 as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
U. S. Treasury obligations	\$ 287,471,236	\$ 10,157,927	\$ (406,073)	\$ 297,223,090
Federal agency obligations	422,818,803	8,506,213	(7,409,581)	423,915,435
Federal agency mortgage- backed securities	59,192,774	2,370,553	(379,490)	61,183,837
Inflation Bond	22,265,393	-	(51,308)	22,214,085
	<u>\$ 791,748,206</u>	<u>\$ 21,034,693</u>	<u>\$ (8,246,452)</u>	<u>\$ 804,536,447</u>

The amortized cost of the Inflation Bond includes \$212,200 of unrealized gains (related to the inflation adjustment) which will be recognized as a realized gain when it is paid.

Amortized cost and aggregate fair value of bonds held as of December 31, 2013, according to final contractual maturity dates, are as indicated below. Actual future maturities will differ from the maturities shown because certain issuers have the right to call or prepay obligations.

North Carolina Insurance Underwriting Association

Notes to Statutory Financial Statements

Note 3. Bonds (Continued)

	Amortized Cost	Fair Value
Amounts due in less than one year	\$ 123,741,407	\$ 124,596,355
Amounts due after one year through five years	394,521,364	403,491,151
Amounts due after five years through ten years	173,114,001	180,464,339
Amounts due after ten years	100,371,434	95,984,602
	<u>\$ 791,748,206</u>	<u>\$ 804,536,447</u>

The following table shows unrealized gross losses and fair value, for the Association's investments, aggregated by individual category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2013:

	12 Months or Less		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury obligations	\$ 7,296,940	\$ 1,303	\$ 19,504,600	\$ 404,770	\$ 26,801,540	\$ 406,073
Federal agency obligations	106,376,122	4,148,953	91,664,317	3,260,628	198,040,439	7,409,581
Federal agency mortgage-backed securities	6,355,575	145,422	5,648,825	234,068	12,004,400	379,490
Inflation Bonds	-	-	22,214,085	51,308	22,214,085	51,308
	<u>\$ 120,028,637</u>	<u>\$ 4,295,678</u>	<u>\$ 139,031,827</u>	<u>\$ 3,950,774</u>	<u>\$ 259,060,464</u>	<u>\$ 8,246,452</u>

The Association evaluates impairment at each reporting period for each security (other than loan-backed or structured securities) where the fair value of the investment is less than its amortized cost. It is expected that the securities would not be settled at a price less than the amortized cost of the investment, as the Association has the ability and intent to hold the investment until recovery. The Association evaluated the credit ratings of these holdings, noting neither a significant deterioration since purchase nor other factors which may indicate an other-than-temporary impairment, such as the length of time and extent to which fair value has been less than cost, the financial condition and near-term prospects of the issuer as well as specific events or circumstances that may influence the operations of the issuer, and our intent and ability to hold the investment for a sufficient time in order to enable recovery of our cost.

The Association evaluated each loan-backed and structured security for impairment where the fair value of the investment was less than its amortized cost. For those securities that the Association intends to sell or does not have the ability to hold until recovery, an impairment is recorded equal to the difference of amortized cost and fair value. For all other loan-backed and structured securities, the Association developed assumptions around prepayment speeds, expected default rates and the value of the underlying collateral. These assumptions were used to develop expected cash flows which were discounted at the effective yield at the date of acquisition (or most recent impairment). These modeled cash flows were compared against the current amortized cost basis. If the expected discounted cash flows were less than the amortized cost basis, the security was written down to the discounted cash flow amount, with the difference recorded as a realized loss.

For the year ended December 31, 2013, no securities were determined to be other than temporarily impaired.

Investment income, net of investment expenses, for the year ended December 31, 2013 is comprised of primarily interest on bonds and short-term investments.

North Carolina Insurance Underwriting Association

Notes to Statutory Financial Statements

Note 4. Reserve for Losses and Loss Adjustment Expenses

Activity in the reserve for losses and loss adjustment expenses for the year ended December 31, 2013 is summarized as follows:

Balance at December 31, 2012	<u>\$ 11,056,113</u>
Incurred related to:	
Current year	17,476,194
Prior years	<u>4,375,110</u>
Total incurred	<u>21,851,304</u>
Paid related to:	
Current year	(12,330,622)
Prior years	<u>(11,766,758)</u>
Total paid	<u>(24,097,380)</u>
Balance at December 31, 2013	<u><u>\$ 8,810,037</u></u>

As a result of changes in estimates related to insured events of prior years, the provision for losses and loss adjustment expenses was adjusted as indicated in the table above. The increase from prior year incurred losses and loss adjustment reserves in 2013 resulted from unfavorable development of claims on an overall basis.

The components of unpaid losses and loss adjustment expenses as of December 31, 2013 are as follows:

Unpaid losses:	
Case basis	\$ 6,073,601
Incurred but not reported	<u>1,853,780</u>
	<u>7,927,381</u>
Unpaid loss adjustment expenses:	
Case basis	545,860
Incurred but not reported	<u>336,796</u>
	<u>882,656</u>
	<u><u>\$ 8,810,037</u></u>

Note 5. Related Party Transactions

A related organization, North Carolina Joint Underwriting Association (NCJUA), shares the same headquarters facility and is operated by the same personnel as the Association. This arrangement periodically results in receivables or payables between the Association and NCJUA. Shared expenses are allocated between the two parties with 71 percent allocated to the Association and the remainder to NCJUA for the year ended December 31, 2013, 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, 2013, the Association had a net payable to NCJUA of \$776,197.

North Carolina Insurance Underwriting Association

Notes to Statutory Financial Statements

Note 6. Lease Commitments

The Association and NCJUA jointly rent home office facilities under an operating lease agreement, which expires in calendar year 2025. The Association was allocated 71 percent of the costs under this lease agreement during the year ended December 31, 2013. The Association's allocated share of rent expense was \$319,615 in the year ended December 31, 2013. The Association also leases certain equipment jointly with NCJUA.

The Association's share of the rent commitments, based on current cost sharing provisions with NCJUA, under the terms of operating lease agreements at December 31, 2013 is as follows:

Year Ending December 31,	Amount
2014	\$ 392,039
2015	423,889
2016	408,395
2017	359,935
2018	370,177
Thereafter	3,152,561
	<u>\$ 5,106,996</u>

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

Note 7. Litigation

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 8. Assessments of and Distributions to Member Insurers

Distribution to an insolvent Member Insurer amounted to \$635,478 during the year ended December 31, 2013. There were no admitted amounts due or processed from Association Member Insurers at December 31, 2013.

Note 9. Employee Benefit Plans

Pension Benefits: The Association and NCJUA participate in a multiple employer pension plan called the Insurance Organizations Employees' Retirement Plan (the Plan). Employees who are hired before age 60 and who are scheduled to work 1,000 hours in a 12-month period are eligible for the plan upon their date of hire. No employee contributions are required. 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 year ended December 31, 2013, the Association is allocated 71 percent, of the costs and obligations 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 health care 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 are age 50 with 65 points (age plus service) or age 65 with five years of service. Spouses and dependent children of these retirees are also eligible to participate. Eligible retirees age 55 with 10 years of service will receive a \$5,000 life benefit.

North Carolina Insurance Underwriting Association

Notes to Statutory Financial Statements

Note 9. Employee Benefit Plans (Continued)

For measurement purposes, the discount rate used in 2013 in determining the accumulated postretirement benefit obligation was 4.25 percent, and the health care cost-trend rate was 7.5 percent decreasing 0.5 percent per year to an ultimate rate of 5.0 percent in 2019.

The Medicare Prescription Drug Improvement and Modernization Act of 2003 was enacted during 2003 (the Act). The Act creates Medicare Part D, which could have some effect on the Association's obligations under the postretirement health plan. Measures of the accumulated postretirement benefit obligation and the net periodic benefit cost recorded in these financial statements do not reflect any changes brought about by the Act because the employer is unable to conclude whether the benefits provided by the plan are actuarially equivalent to Medicare Part D under the Act.

The reconciliations of the benefit obligations as of December 31, 2013 for pension and postretirement are as follows:

Pension Benefits	Underfunded
Benefit obligation at beginning of year	\$ 4,252,931
Service cost	237,088
Interest cost	188,111
Actuarial (gain) or loss	(205,037)
Benefits paid	(121,321)
Benefit obligation at end of year	<u>\$ 4,351,772</u>

Accumulated benefit obligation, end of year	<u>\$ 3,629,547</u>
---	---------------------

Post Retirement Benefits	Underfunded
Benefit obligation at beginning of year	\$ 1,895,808
Service cost	248,105
Interest cost	145,823
Contributions by plan participants	16,177
Actuarial (gain) or loss	(804,241)
Adjustment to PBO	1,315,390
Benefits paid	(73,139)
Benefit obligation at end of year	<u>\$ 2,743,923</u>

The changes in plan assets at December 31, 2013 are as follows:

Changes in Plan Assets	Pension Benefits	Post Retirement Benefits
Fair value of plan assets, beginning of year	\$ 2,928,548	\$ -
Actual return on plan assets	398,270	-
Contributions by reporting entity	214,470	56,962
Contributions by participants	-	16,177
Benefits paid	(121,321)	(73,139)
Fair value of plan assets, end of year	<u>\$ 3,419,967</u>	<u>\$ -</u>

North Carolina Insurance Underwriting Association

Notes to Statutory Financial Statements

Note 9. Employee Benefit Plans (Continued)

The reconciliation of the funded status to the net amount recognized at December 31, 2013 is as follows:

Funded Status	Pension Benefits	Post Retirement Benefits
Underfunded:		
Accrued benefit costs	\$ (363,095)	\$ (2,492,263)
Liability for pension benefits	(568,710)	(251,660)
Total liabilities recognized	\$ (931,805)	\$ (2,743,923)

The components of net periodic benefit costs at December 31, 2013 are as follows:

Components of Net Periodic Benefit Costs	Pension Benefits	Post Retirement Benefits
Service cost	\$ 237,088	\$ 248,105
Interest cost	188,111	145,823
Expected return on plan assets	(217,966)	-
Amount of recognized gains and losses	62,505	-
Amount of prior service cost	(51)	201,617
Net periodic benefit cost	\$ 269,687	\$ 595,545

The amounts in unassigned funds (surplus) recognized as components of net periodic cost at December 31, 2013 are as follows:

	Pension Benefits	Post Retirement Benefits
Net transition obligation exercised	\$ -	\$ 1,315,390
Net prior service cost or credit recognized	(51)	(201,617)
Net gain and loss arising during the period	(385,340)	(804,241)
Net gain and loss recognized	(62,205)	-

The amounts of unassigned funds (surplus) expected to be recognized in the fiscal year as components of net periodic benefit cost at December 31, 2013 are as follows:

	Pension Benefits	Retirement Benefits
Net transition asset or obligation	\$ -	\$ -
Net prior service cost or credit	(51)	(201,617)
Net recognized gains and losses	14,246	(56,222)

There are no amounts that have not yet been recognized as components of net periodic benefit cost.

North Carolina Insurance Underwriting Association

Notes to Statutory Financial Statements

Note 9. Employee Benefit Plans (Continued)

The following table presents the assumptions used in determining present value of the benefit obligation for the pension and the accumulated postretirement benefit obligation as of December 31, 2013:

	<u>Pension Benefits</u> <u>2013</u>	<u>Postretirement</u> <u>Benefits</u> <u>2013</u>
Weighted-average assumptions used in computing ending obligations:		
Discount rate	5.00%	5.00%
Rate of compensation increase	4.00%	N/A
Weighted-average assumptions used in computing net cost:		
Discount rate	4.25%	N/A
Rate of compensation increase	4.00%	N/A
Expected return on plan assets	7.25%	N/A
Assumed health care cost trends rate:		
Health care cost trend rate assumed for next year	N/A	7.50%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	N/A	5.00%
Year that the rate reached the ultimate trend rate	N/A	2019

Plan Assets

The members of the Plan participate in a multiple-employer pension trust. 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 Plan at the end of the Association's fiscal year, and the on-going target allocation, by asset category, follows:

<u>Asset Category</u>	<u>Target</u>	<u>As of</u> <u>December 31, 2013</u>
Equity securities	60.0 %	61.3 %
Debt securities	40.0	37.4
Cash	-	1.3
Total	100 %	100 %

The Plan's investment policy is set by the Trustees of the Insurance Organization Pension Trust. Plan assets are invested to generate a long-term investment return (net of management and administrative fees) that exceeds the Consumer Price Index (CPI) inflation rate by at least 5.0 percent. Long-term investment results are measured over rolling periods of eight to ten years.

North Carolina Insurance Underwriting Association

Notes to Statutory Financial Statements

Note 9. Employee Benefit Plans (Continued)

The following table summarizes the plan assets fair value measurements at December 31, 2013:

	Quoted Prices in Active Markets for Identical Assets Level I	Significant Other Observable Inputs Level II	Significant Unobservable Inputs Level III	Total Fair Value
Equity	\$ 2,096,440	\$ -	\$ -	\$ 2,096,440
Debt	-	1,279,068	-	1,279,068
Cash	44,460	-	-	44,460
	<u>\$ 2,140,900</u>	<u>\$ 1,279,068</u>	<u>\$ -</u>	<u>\$ 3,419,968</u>

Cash Flows

The Association expects to contribute approximately \$223,399 to its pension plan and approximately \$50,597 to its other postretirement benefit plan in 2014.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid in fiscal years:

Year	Pension Plan	Postretirement Plan
2014	\$ 120,363	\$ 50,597
2015	137,755	74,591
2016	154,463	91,619
2017	171,146	107,579
2018	191,680	138,095
2019-2023	1,280,540	1,001,295

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 multiple-employer arrangement with the Association matching 100 percent of employee contributions up to 6 percent of the employee's earnings. The Association's expense for the year ended December 31, 2013 was \$142,896.

Note 10. Fair Values of Financial Instruments

Due to their short-term maturity or settlement, the fair values of cash and short-term investments, balances due on account from insureds and others, payables, and remittances and items not allocated approximate their carrying amounts as reflected in the statutory statements of admitted assets, liabilities and surplus. The fair value and amortized cost of bonds are estimated based on quoted market prices if available, and if not, fair values are estimated using present value or other valuation techniques. These techniques are significantly affected by our assumptions, including discount rates and estimates of future cash flows. Potential taxes and other transactions costs have not been considered in estimating fair values. The fair value and amortized cost of bonds were approximately \$804,536,000 and \$791,748,000, respectively, at December 31, 2013.

The Association has not historically maintained financial instruments for trading purposes.

North Carolina Insurance Underwriting Association

Notes to Statutory Financial Statements

Note 10. Fair Values of Financial Instruments (Continued)

Fair value is based on an exit price, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Association employs a hierarchical disclosure framework which prioritizes and ranks the level of market price observability used in measuring financial instruments at fair value. Market price observability is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment in measuring fair value.

The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that the Association has the ability to access at the measurement date.

Level 2 – Valuations derived from inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as:

- a) Quoted prices for similar assets or liabilities in active markets.
- b) Quoted prices for identical or similar assets or liabilities in markets that are not active.
- c) Inputs other than quoted prices that are observable for the asset or liability.
- d) Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Valuations are derived from techniques that require significant unobservable inputs. The unobservable inputs reflect the Association's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

The Association held no investments that were required to be recorded at fair value as of December 31, 2013.

Note 11. Reinsurance Agreements

The claims payable capacity of the Association, along with NCJUA, is composed of premiums received from policies issued, surplus, investment income surplus, any payments received under the Association's traditional reinsurance and non-traditional risk transfer program, any assessments levied on the Association's Member Insurers, and other statutorily-prescribed mechanisms (once fully implemented) for financing a deficit event affecting the Association. The Association's reinsurance program, effective May 1, 2013 for potential claims obligations that arise from May 1, 2013 to May 1, 2014 is expected to provide protection from third party reinsurers and capital market investors from \$1.70 billion to \$3.40 billion. Further, from \$3.40 billion to \$4.43 billion, protection is expected to be provided from third party insurers, capital market investors, catastrophe recovery charges and co-participations.

North Carolina Insurance Underwriting Association

Notes to Statutory Financial Statements

Note 11. Reinsurance Agreements (Continued)

There were no reimbursed losses and loss adjustment expenses for the year ended December 31, 2013.

For the excess of loss coverages described above, the Associations are 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 or decreases by an average of greater than ten percent. The effect of reinsurance on the Association premiums written and earned during the year ended December 31, 2013 is as follows:

	2013	
	Written	Earned
Direct	\$ 385,773,364	\$ 364,370,004
Ceded	(182,041,021)	(182,041,021)
Net premiums	\$ 203,732,343	\$ 182,328,983

Reinsurance contracts do not relieve the Associations of their primary obligation to policyholders, and failure of the reinsurers to discharge their obligations could result in losses to the Associations. The Associations, with the assistance of their reinsurance intermediary, regularly evaluate the financial condition of their reinsurers and monitor concentrations of credit risk related to their reinsurance activities. No credit losses resulted from ceded reinsurance activities during the year ended December 31, 2013.

There is no unsecured reinsurance recoverable on paid and unpaid losses and loss adjustment expenses for individual reinsurers whose balances exceeded three percent of the Association's surplus as of December 31, 2013.

The Association has not received a ceding commission as part of its reinsurance arrangements. Therefore, upon cancellation no return commission will be due.

Note 12. Subsequent Events

Events or transactions that occur after the Statements of Admitted Assets, Liabilities, Capital and Surplus date, but before statutory financial statements are complete and available to be issued, are reviewed by the Association to determine if they are to be recognized.

All of the effects of subsequent events that provide additional evidence about conditions that existed at the statements of admitted assets, liabilities, capital and surplus date, including the estimates inherent in the process of preparing the statutory financial statements, are recognized in the statutory financial statements. The Association does not recognize subsequent events that provide evidence about conditions that did not exist at the statements of admitted assets, liabilities, capital and surplus date but arose after, but before the statutory financial statements are available to be issued. In some cases, nonrecognized subsequent events are disclosed to keep the statutory financial statements from being misleading.

The Association has evaluated subsequent events through May 8, 2014, which is the date the statutory financial statements were available to be issued.

North Carolina Insurance Underwriting Association

**Supplemental Summary Investment Schedule
December 31, 2013**

	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	Amount	Percentage	Amount	Percentage
Bonds:				
U.S. treasury securities	\$ 309,736,629	29.9	\$ 309,736,629	29.9
U.S. government agency obligations excluding mortgage-backed securities):				
Issued by U.S. government sponsored agencies	422,818,803	40.7	422,818,803	40.7
Mortgage-backed securities (includes residential and commercial MBS):				
Pass-through securities:				
Issued or guaranteed by GNMA	13,454,320	1.3	13,454,320	1.3
Issued or guaranteed by FNMA and FHLMC	45,738,454	4.4	45,738,454	4.4
Equity interests:				
Investments in mutual funds	9,143,142	0.9	9,143,142	0.9
Cash, cash equivalents and short-term investments	236,489,070	22.8	236,489,070	22.8
Total invested assets	<u>\$ 1,037,380,418</u>	<u>100.0</u>	<u>\$ 1,037,380,418</u>	<u>100.0</u>

See accompanying Independent Auditor's Report.



SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For the year ended December 31, 2013

(To be filed by April 1)

Of North Carolina Insurance Underwriting Association

Address (City, State, Zip Code): Cary NC 27518

NAIC Group Code.....0000

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. \$...1,065,562,770

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 American Honda Finance Corporation.....	Commercial Paper.....	\$.....9,999,861	.....0.938 %
2.02 Abbott Laboratories.....	Commercial Paper.....	\$.....9,999,700	.....0.938 %
2.03 Exxon Mobil Corporation.....	Commercial Paper.....	\$.....9,999,533	.....0.938 %
2.04 Union Bank, National Association.....	Commercial Paper.....	\$.....9,999,533	.....0.938 %
2.05 Medtronic, Inc.....	Commercial Paper.....	\$.....9,999,475	.....0.938 %
2.06 Toyota Motor Credit Corporation.....	Commercial Paper.....	\$.....9,999,250	.....0.938 %
2.07 John Deere Capital Corporation.....	Commercial Paper.....	\$.....9,999,250	.....0.938 %
2.08 National Rural Utilities Cooperative Finance Corporation	Commercial Paper.....	\$.....9,999,075	.....0.938 %
2.09 General Electric Capital Corporation.....	Commercial Paper.....	\$.....9,999,067	.....0.938 %
2.10 Queensland Treasury Corporation.....	Commercial Paper.....	\$.....9,998,953	.....0.938 %

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

<u>Bonds</u>	1	2
3.01 NAIC-1.....	\$.....991,771,286	.....93.075 %
3.02 NAIC-2.....	\$.....	.....0.000 %
3.03 NAIC-3.....	\$.....	.....0.000 %
3.04 NAIC-4.....	\$.....	.....0.000 %
3.05 NAIC-5.....	\$.....	.....0.000 %
3.06 NAIC-6.....	\$.....	.....0.000 %
<u>Preferred Stocks</u>	3	4
3.07 P/RP-1.....	\$.....	.....0.000 %
3.08 P/RP-2.....	\$.....	.....0.000 %
3.09 P/RP-3.....	\$.....	.....0.000 %
3.10 P/RP-4.....	\$.....	.....0.000 %
3.11 P/RP-5.....	\$.....	.....0.000 %
3.12 P/RP-6.....	\$.....	.....0.000 %

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? If response to 4.01 above is yes, responses are not required for interrogatories 5-10.	Yes [X]	No []
4.02 Total admitted assets held in foreign investments	\$.....	.....0.000 %
4.03 Foreign-currency-denominated investments	\$.....	.....0.000 %
4.04 Insurance liabilities denominated in that same foreign currency	\$.....	.....0.000 %

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

1	2
5.01 Countries designated NAIC-1.....	\$.....0.000 %
5.02 Countries designated NAIC-2.....	\$.....0.000 %
5.03 Countries designated NAIC-3 or below.....	\$.....0.000 %

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:	\$.....0.000 %
6.02 Country 2:	\$.....0.000 %
Countries designated NAIC-2:	
6.03 Country 1:	\$.....0.000 %
6.04 Country 2:	\$.....0.000 %
Countries designated NAIC-3 or below:	
6.05 Country 1:	\$.....0.000 %
6.06 Country 2:	\$.....0.000 %

7. Aggregate unhedged foreign currency exposure..... \$.....0.000 %

8.	Aggregate unhedged foreign currency exposure categorized by NAIC sovereign designation:	1	2		
8.01	Countries designated NAIC-1.....	\$.....	.....	0.000 %
8.02	Countries designated NAIC-2.....	\$.....	.....	0.000 %
8.03	Countries designated NAIC-3 or below.....	\$.....	.....	0.000 %
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: .....	\$.....	.....	0.000 %
9.02	Country 2: .....	\$.....	.....	0.000 %
	Countries designated NAIC-2:				
9.03	Country 1: .....	\$.....	.....	0.000 %
9.04	Country 2: .....	\$.....	.....	0.000 %
	Countries designated NAIC-3 or below:				
9.05	Country 1: .....	\$.....	.....	0.000 %
9.06	Country 2: .....	\$.....	.....	0.000 %
10.	Ten largest non-sovereign (i.e. non-governmental) foreign issues:				
		1	2		
	<u>Issuer</u>	<u>NAIC Designation</u>	3	4	
10.01	\$.....	0.000 %
10.02	\$.....	0.000 %
10.03	\$.....	0.000 %
10.04	\$.....	0.000 %
10.05	\$.....	0.000 %
10.06	\$.....	0.000 %
10.07	\$.....	0.000 %
10.08	\$.....	0.000 %
10.09	\$.....	0.000 %
10.10	\$.....	0.000 %
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 <input checked="" type="checkbox"/> No <input type="checkbox"/>	
	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.....	\$.....	.....	0.000 %
11.03	Canadian currency-denominated investments.....	\$.....	.....	0.000 %
11.04	Canadian-denominated insurance liabilities.....	\$.....	.....	0.000 %
11.05	Unhedged Canadian currency exposure.....	\$.....	.....	0.000 %
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 <input checked="" type="checkbox"/> No <input type="checkbox"/>	
	If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.				
		1	2	3	
12.02	Aggregate statement value of investments with contractual sales restrictions.....	\$.....	.....	0.000 %
	Largest three investments with contractual sales restrictions:				
12.03	.....	\$.....	.....	0.000 %
12.04	.....	\$.....	.....	0.000 %
12.05	.....	\$.....	.....	0.000 %
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 <input checked="" type="checkbox"/> No <input type="checkbox"/>	
	If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.				
		1	2	3	
	<u>Name of Issuer</u>				
13.02	.....	\$.....	.....	0.000 %
13.03	.....	\$.....	.....	0.000 %
13.04	.....	\$.....	.....	0.000 %
13.05	.....	\$.....	.....	0.000 %
13.06	.....	\$.....	.....	0.000 %
13.07	.....	\$.....	.....	0.000 %
13.08	.....	\$.....	.....	0.000 %
13.09	.....	\$.....	.....	0.000 %
13.10	.....	\$.....	.....	0.000 %
13.11	.....	\$.....	.....	0.000 %
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 <input checked="" type="checkbox"/> No <input type="checkbox"/>	
	If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.				
		1	2	3	
14.02	Aggregate statement value of investments held in nonaffiliated, privately placed equities.....	\$.....	.....	0.000 %
	Largest three investments held in nonaffiliated, privately placed equities:				
14.03	.....	\$.....	.....	0.000 %
14.04	.....	\$.....	.....	0.000 %
14.05	.....	\$.....	.....	0.000 %

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.....		\$.....		0.000 %					
	Largest three investments in general partnership interests:									
15.03	.....		\$.....		0.000 %					
15.04	.....		\$.....		0.000 %					
15.05	.....		\$.....		0.000 %					
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	.....		\$.....		0.000 %					
16.03	.....		\$.....		0.000 %					
16.04	.....		\$.....		0.000 %					
16.05	.....		\$.....		0.000 %					
16.06	.....		\$.....		0.000 %					
16.07	.....		\$.....		0.000 %					
16.08	.....		\$.....		0.000 %					
16.09	.....		\$.....		0.000 %					
16.10	.....		\$.....		0.000 %					
16.11	.....		\$.....		0.000 %					
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.....		\$.....		0.000 %					
16.13	Mortgage loans over 90 days past due.....		\$.....		0.000 %					
16.14	Mortgage loans in the process of foreclosure.....		\$.....		0.000 %					
16.15	Mortgage loans foreclosed.....		\$.....		0.000 %					
16.16	Restructured mortgage loans.....		\$.....		0.000 %					
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%	.....	\$.....	0.000 %		\$.....	0.000 %		\$.....	0.000 %
17.02	91% to 95%	.....	\$.....	0.000 %		\$.....	0.000 %		\$.....	0.000 %
17.03	81% to 90%	.....	\$.....	0.000 %		\$.....	0.000 %		\$.....	0.000 %
17.04	71% to 80%	.....	\$.....	0.000 %		\$.....	0.000 %		\$.....	0.000 %
17.05	below 70%	.....	\$.....	0.000 %		\$.....	0.000 %		\$.....	0.000 %
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:										
						2		3		
	<u>Description</u>									
18.02	.....		\$.....		0.000 %					
18.03	.....		\$.....		0.000 %					
18.04	.....		\$.....		0.000 %					
18.05	.....		\$.....		0.000 %					
18.06	.....		\$.....		0.000 %					
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.....		\$.....		0.000 %					
	Largest three investments held in mezzanine real estate loans:									
19.03	.....		\$.....		0.000 %					
19.04	.....		\$.....		0.000 %					
19.05	.....		\$.....		0.000 %					
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	3	1st Qtr	2nd Qtr	3rd Qtr	
20.01	Securities lending agreements (do not include assets held as collateral for such transactions).....		\$.....	0.000 %		\$.....	\$.....	\$.....	\$.....	
20.02	Repurchase agreements.....		\$.....	0.000 %		\$.....	\$.....	\$.....	\$.....	
20.03	Reverse repurchase agreements.....		\$.....	0.000 %		\$.....	\$.....	\$.....	\$.....	
20.04	Dollar repurchase agreements.....		\$.....	0.000 %		\$.....	\$.....	\$.....	\$.....	
20.05	Dollar reverse repurchase agreements.....		\$.....	0.000 %		\$.....	\$.....	\$.....	\$.....	

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.....	\$.....	0.000 %	\$.....	0.000 %
21.02 Income generation.....	\$.....	0.000 %	\$.....	0.000 %
21.03 Other.....	\$.....	0.000 %	\$.....	0.000 %

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	1st Qtr	2nd Qtr	3rd Qtr
22.01 Hedging.....	\$.....	0.000 %	\$.....	\$.....	\$.....
22.02 Income generation.....	\$.....	0.000 %	\$.....	\$.....	\$.....
22.03 Replications.....	\$.....	0.000 %	\$.....	\$.....	\$.....
22.04 Other.....	\$.....	0.000 %	\$.....	\$.....	\$.....

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	1st Qtr	2nd Qtr	3rd Qtr
23.01 Hedging.....	\$.....	0.000 %	\$.....	\$.....	\$.....
23.02 Income generation.....	\$.....	0.000 %	\$.....	\$.....	\$.....
23.03 Replications.....	\$.....	0.000 %	\$.....	\$.....	\$.....
23.04 Other.....	\$.....	0.000 %	\$.....	\$.....	\$.....

See accompanying Independent Auditor's Report.

North Carolina Insurance Underwriting Association

**Supplemental Schedule of Reinsurance Interrogatories
December 31, 2013**

7.1. Has the reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit, or any similar provisions)?

Yes [] No [X]

8.1. Has this reporting entity reinsured any risk with any other entity and agreed to release such entity from liability, in whole or in part, from any loss that may occur on the risk, or portion thereof, reinsured?

Yes [] No [X]

9.1 Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:

- a. A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;
- b. A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;
- c. Aggregate stop loss reinsurance coverage;
- d. A unilateral right by either party (or both parties) to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party;
- e. A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or
- f. Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity.

Yes [] No [X]

(Continued)

North Carolina Insurance Underwriting Association

Supplemental Schedule of Reinsurance Interrogatories (Continued)
December 31, 2013

9.2. Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), for which, during the period covered by the statement, it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member where:

- a. The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or
- b. Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in a separate reinsurance contract.

Yes [] No [X]

9.4. Except for transactions meeting the requirements of paragraph 30 of SSAP No. 62, *Property and Casualty Reinsurance*, has the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:

- a. Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles ("SAP") and as a deposit under generally accepted accounting principles ("GAAP"); or
- b. Accounted for that contract as reinsurance under GAAP and as a deposit under SAP?

Yes [] No [X]

See accompanying Independent Auditor's Report.

